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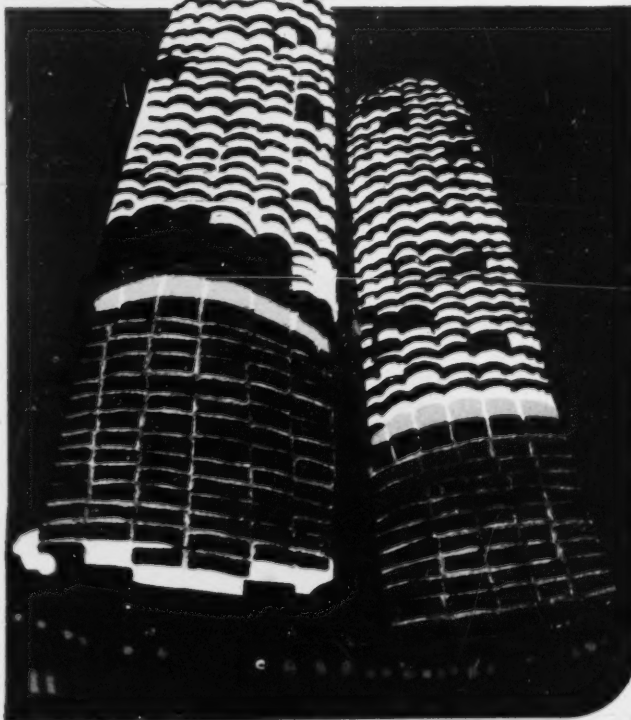
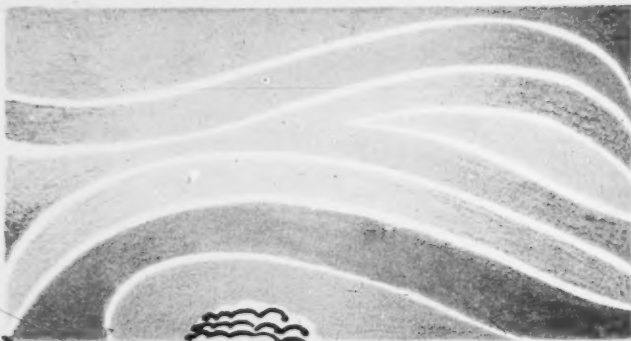
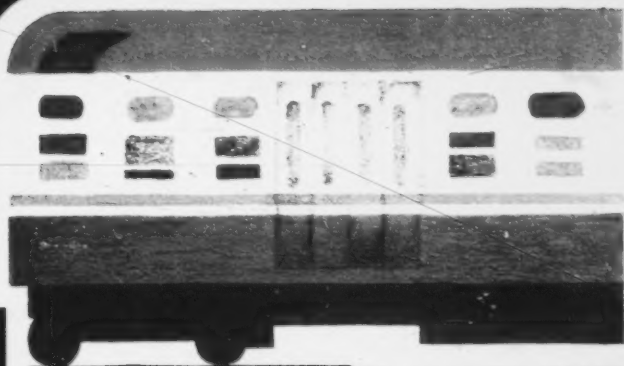
Mortgage Banker

October 1979

MBA's 66th Annual Convention

IN THIS ISSUE:

Income Property Conference
"Due-on-Sale" Loans and the Law
40th Anniversary, *Mortgage Banker*



Mortgage Banker

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William E. Henry

Editor

John T. Aquino

Assistant Editor

Jane B. Steinmetz

Advertising

Virginia Hoy

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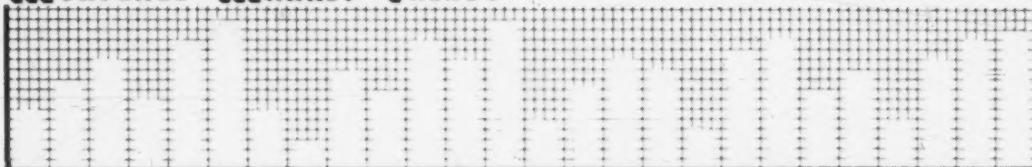
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MORTGAGE MARKET TRENDS



Prepared By MBA's Economics Department

September 20, 1979

The rebound in housing sales in July most likely resulted from pent up demand caused by the reduced sales levels of preceding months. The sales decline in the early summer was largely attributable to the unavailability of gasoline and general uncertainty caused by the gasoline shortage. Similarly, the strong July performance probably encouraged the relatively high level of housing starts in August. However, the strong sales performance in the housing market is likely to face significant declines in the final quarter of the year.

In the long-run, housing is a boom industry. The basic raw materials to support a significant growth in housing sales are already in place; the post-war baby boom population is in the prime, first-time, home-buying age group. The housing demand created by these people will sustain housing activity through the next decade. Short-term factors, however, should adversely affect housing activity for the next six to nine months.

While the basic population is in place and will demand more housing, the income necessary to support housing purchases is being eroded. Real personal income has been declining slightly for the past six months as price increases have outstripped income increases. As the rate of unemployment grows and as overtime and hours worked begin to decline, real personal income should decline at an accelerating rate. A decreased level of real income will result in the postponement of house purchases and a general weakening of housing activity as we move deeper into the recession.

Another factor working to the detriment of the housing market is the adverse state of the financial markets. Current Federal Reserve policy for high interest rates is driving up the cost of funds for all mortgage lenders. The increased cost of funds, along with the general increase in the cost of operations, has driven mortgage interest rates to record highs. The higher cost of debt service on larger mortgage amounts is taxing the abilities of the potential home buyer as real incomes decline. The result will be a significant slowdown in the rate of house sales.

Thus, the ability and willingness to purchase housing will be suppressed over the next six to nine months as unemployment rises and reduced economic activity causes consumers to tighten their belts. However, potential housing demand will be waiting in readiness for another economic expansion to fuel housing sales.

Dr. Thomas R. Harter, Chief Economist

MORTGAGE MARKET TRENDS - OCTOBER, 1979

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSING	NEW HOUSES			
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate			Seasonally Adjusted Annual Rate					Sold	Available For Sale	Months Supply at Current Rate	
	1-4		5+	1-4		5+	1-4		5+	1-4		5+	1-4		5+	1-4					5+
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units				Units
1978	184	133	51	1,821	1,279	542	216	168	48	2,093	1,582	511	113,910	63,195	13,373	37,342	382	77	422	55	
JUN	140	102	38	1,632	1,142	490	192	152	40	2,104	1,589	515	115,359	63,344	14,346	37,669	351	68	420	62	
AUG	146	109	37	1,563	1,145	418	191	151	40	2,004	1,568	436	114,679	63,273	13,806	37,600	395	72	421	58	
SEP	141	99	42	1,731	1,217	514	181	135	46	2,024	1,544	480	115,051	63,063	13,742	38,246	329	68	419	62	
OCT	148	107	41	1,719	1,260	459	192	145	47	2,054	1,571	483	115,529	63,460	13,366	38,703	335	70	414	59	
NOV	129	91	38	1,724	1,245	479	158	122	36	2,107	1,652	455	118,608	64,884	14,024	39,750	303	53	422	80	
DEC	104	71	33	1,664	1,285	379	120	89	31	2,074	1,658	416	120,739	66,243	14,251	40,245	236	51	421	83	
1979	81	56	25	1,324	959	365	88	64	24	1,679	1,263	416	112,999	61,407	13,208	38,384	245	53	411	78	
JAN	84	57	27	1,321	878	443	84	64	20	1,381	1,029	352	115,191	62,308	14,663	38,220	263	58	399	53	
FEB	141	103	38	1,531	1,103	428	153	120	33	1,786	1,382	404	119,211	61,376	14,967	42,868	336	73	416	57	
MAR	139	106	33	1,437	1,082	355	161	131	30	1,745	1,393	352	118,621	59,868	16,108	42,645	336	72	417	57	
APR	162	111	41	1,618	1,163	455	189	144	45	1,835	1,345	490	120,904	59,735	15,932	43,248	374	69	426	62	
MAY	156	112	44	1,639	1,144	495	193	147	46	1,935	1,419	516	124,536	60,447	17,300	46,789	349	64	420	66	
JUN	138	104	34	1,528	1,136	392	164	130	34	1,791	1,360	431	124,875p	60,519p	17,362p	46,994p	n.a.	67p	421p	62p	
JUL	148p	107p	41p	1,614p	1,149p	465p	169p	130p	39p	1,783p	1,374p	409p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
7 months	901	659	242	1,032	800	232	1,179	918	261	1,139	916	223	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
1979	901	659	242	1,032	800	232	1,179	918	261	1,139	916	223	2,107	1,652	455	118,608	64,884	14,024	39,750	303	53
1978	967	730	237	1,139	916	223	857	718	139	1,771	1,374	409p	1,771	1,374	409p	1,771	1,374	409p	1,771	1,374	409p
1977	710	568	142	857	718	139	857	718	139	857	718	139	857	718	139	857	718	139	857	718	139
1976	710	568	142	857	718	139	857	718	139	857	718	139	857	718	139	857	718	139	857	718	139

RESIDENTIAL STRUCTURES, BY REGION

(Units in thousands)

CONSTRUCTION STATUS

(Units in thousands)

Year and Month	PERMITS 16 000 ISSUING PLACES										STARTS										UNDER CONSTRUCTION			COMPLETIONS							
	Actual					Seasonally Adjusted Annual Rate					Actual					Seasonally Adjusted Annual Rate					Seasonally Adjusted Annual Rate			Seasonally Adjusted Annual Rate							
	North		South		Total	North		South		Total	North		South		Total	North		South		Total	1-4		5+		Total	1-4		5+			
	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units		
1978	19	42	53	72	191	363	538	729	23	56	81	56	212	474	869	538	1,340	895	445	167	129	38	167	129	38	167	129	38			
JUN	18	34	36	42	219	377	553	483	22	47	71	52	219	465	861	559	1,363	919	444	166	125	41	166	125	41	166	125	41			
JUL	19	37	48	42	189	381	533	460	21	43	76	50	217	419	803	565	1,373	928	445	178	139	39	178	139	39	178	139	39			
AUG	18	37	48	39	204	424	602	501	22	42	73	44	233	448	808	535	1,371	918	453	181	145	36	181	145	36	181	145	36			
SEP	16	37	53	42	162	375	657	525	21	27	78	46	206	432	879	537	1,381	913	468	180	146	34	180	146	34	180	146	34			
OCT	16	28	48	36	196	355	670	503	17	43	62	37	186	526	852	543	1,371	900	471	167	134	33	167	134	33	167	134	33			
NOV	13	16	39	36	198	327	612	527	14	19	47	39	238	447	786	603	1,310	848	462	170p	134p	34p	170p	134p	34p	170p	134p	34p			
DEC	10	8	35	29	189	198	500	437	8	7	45	28	275	245	745	414	1,270	813	457	129	100	29	129	100	29	129	100	29			
1979	6	10	37	31	140	229	506	446	6	7	42	29	168	184	614	450	1,223	776	447	126	97	29	126	97	29	126	97	29			
JAN	12	25	62	42	143	294	646	448	12	6	75	40	177	363	794	452	1,216	777	439	149	113	36	149	113	36	149	113	36			
FEB	14	31	51	43	142	297	543	455	15	34	65	47	160	354	690	541	1,220	793	435	142	111	31	142	111	31	142	111	31			
MAR	18	37	60	48	181	328	616	493	18	50	72	51	170	412	746	507	1,259	831	438	156	113	43	156	113	43	156	113	43			
APR	18	34	59	45	194	332	636	472	19	24	79	51	181	377	890	487	1,283	837	446	166	130	36	166	130	36	166	130	36			
MAY	15	27	51	45	161	281	585	501	18	36	68	43	182	351	794	464	1,298p	853p	445p	150p	115p	35p	150p	115p	35p	150p	115p	35p			
JUN	15p	29p	59p	45p	1,478	299p	662p	506p	20p	38p	73p	39p	185p	376p	782p	440p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
7 months	93	172	355	283	96	164	448	289	105	256	488	330	108	269	443	324	1,019	779	240	991	785	206	856	692	164	725	578	147			
1979	98	213	381	349	105	256	488	330	105	256	488	330	105	256	488	330	1,019	779	240	991	785	206	856	692	164	725	578	147	725	578	147
1978	102	203	326	316	108	269	443	324	108	269	443	324	108	269	443	324	856	692	164	725	578	147	856	692	164	725	578	147	725	578	147
1977	80	174	233	225	90	218	329	222	90	218	329	222	90	218	329	222	725	578	147	725	578	147	725	578	147	725	578	147	725	578	147
1976																															

INTEREST RATES AND YIELDS

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos
1978																				
APR	14,389	2,870	5,421	5,296	802	11,030	2,320	5,020	3,647	43	863	180	241	286	156	2,496	370	160	1,363	603
MAY	16,667	3,230	6,560	6,048	829	13,225	2,760	6,144	4,280	41	682	40	280	267	95	2,760	430	136	1,501	693
JUN	20,015	3,820	7,541	7,552	1,102	15,843	3,320	7,096	5,335	92	885	140	261	341	143	3,287	360	184	1,876	967
JUL	17,248	3,690	5,888	6,752	918	13,542	3,200	5,570	4,717	55	832	180	186	302	164	2,874	310	132	1,733	599
AUG	19,794	4,120	6,948	7,710	1,016	15,640	3,570	6,601	5,414	55	855	150	229	351	125	3,299	490	118	1,945	836
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	61	694	70	217	223	184	3,642	750	129	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,563	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	352	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,122	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	150	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	n.a.	4,317p	6,103p	n.a.	n.a.	n.a.	3,811p	5,806p	n.a.	n.a.	n.a.	151p	175p	n.a.	n.a.	n.a.	355p	122p	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED, UNITS			INSURED							
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	FHA/VA	Private	Total	FHA(2013)	VA	Private	Units	Units	Units	Units
1978																					
APR	70,450	15,100	23,398	11,646	20,306	19,250	4,260	9,466	3,498	2,026	162	92	70	102	3,813	20	624	25	989	57	2,200
MAY	24,237	16,410	23,939	12,646	21,242	21,300	4,620	10,098	4,321	2,261	179	96	83	115	4,275	23	713	30	1,180	62	2,382
JUN	75,381	16,870	22,927	13,171	22,413	21,125	4,960	9,198	4,215	2,752	162	85	77	117	4,441	20	635	28	1,109	69	2,697
JUL	77,100	17,920	22,393	13,649	23,138	18,482	4,780	7,925	3,672	2,105	155	89	66	114	4,379	22	691	29	1,179	63	2,509
AUG	74,650	17,060	22,047	12,432	23,111	17,618	3,810	8,924	3,251	1,633	169	96	73	129	4,935	23	781	33	1,319	73	2,855
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710	138	73	65	102	3,949	18	584	22	881	62	2,484
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940	188	122	66	131	4,911	40	1,279	28	1,179	63	2,473
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	70	39	109	4,393	29	983	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	6,713	2,525	2,382	157	102	55	98	4,023	25	855	32	1,815	41	1,753
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	485	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164	185	116	60	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,090	55	2,396
JUL	n.a.	17,111p	22,367p	n.a.	n.a.	n.a.	4,390p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA			FHLMC			GNMA			DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	4-Month Commitments						Pass-Through Securities			Construction								
	FHA/VA Bid	Conventional Bid	12 Month Convert Standby	Comm	Pun	Sold	Applications	Issued		Total	Units	5+ Units	Non-res	Land Loans	Total	Units	5+ Units	Non-res
1978																		
JUN	1,095	637		491	762	500	793	2,811	999	520	260	120	140	40	3,940	1,510	1,020	1,410
JUL	757	472		299	738	520	725	3,028	997	440	220	100	120	40	4,120	1,550	1,080	1,490
AUG	499	277		126	838	742	299	3,907	1,648	530	240	150	140	40	4,370	1,570	1,110	1,690
SEP	718	336		283	678	670	402	3,036	1,203	510	250	100	180	40	4,290	1,510	1,140	1,640
OCT	1,965	832		502	514	791	370	3,580	1,762	600	260	160	180	60	4,320	1,530	1,180	1,610
NOV	788	322		507	582	765	581	2,869	1,721	570	260	120	190	40	4,150	1,520	1,110	1,520
DEC	627	320		319	290	598	340	3,295	1,381	620	270	180	170	40	4,180	1,550	1,130	1,510
1979																		
JAN	305	155		132	327	498	321	2,925	1,426	550	250	100	200	50	4,400	1,700	1,140	1,560
FEB	211	161		89	295	401	291	2,892	1,304	420	230	80	110	30	4,130	1,640	960	1,530
MAR	508	284		71	427	350	118	2,680	1,453	470	280	80	110	40	4,620	1,700	1,150	1,770
APR	1,323	638		517	492	358	365	5,907	1,488	570	300	120	150	50	4,250	1,610	1,230	1,410
MAY	426	185		503	601	560	572	3,009	1,673	560	330	100	130	60	3,910	1,820	740	1,350
JUN	220	100		277	462	447	182	3,621	1,860	700	450	110	140	50	4,460	2,060	1,120	1,280
JUL	133	70		160	517	518	320	n.a.	n.a.	610p	320p	130p	160p	60p	4,510p	2,000p	1,090p	1,430p
AUG	162	83		184	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

n.a. - Not available; p-Preliminary

¹From the National Association of Realtors' "Existing Home Sales" series

²Reflects cumulative total through the latest month for each column

³Secondary market gross yields

⁴Benchmark rates, Citicorp Real Estate, Inc.

⁵Federal Reserve's weighted average interest rate for Commercial Banks

⁶Weighted average gross yields for accepted bids

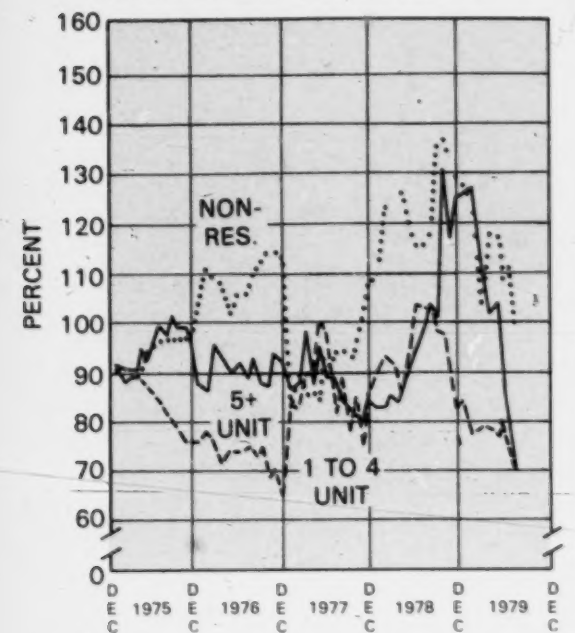
⁷Survey of three New York security dealers' Securities for immediate delivery

⁸Mutual Savings Banks and Commercial Banks

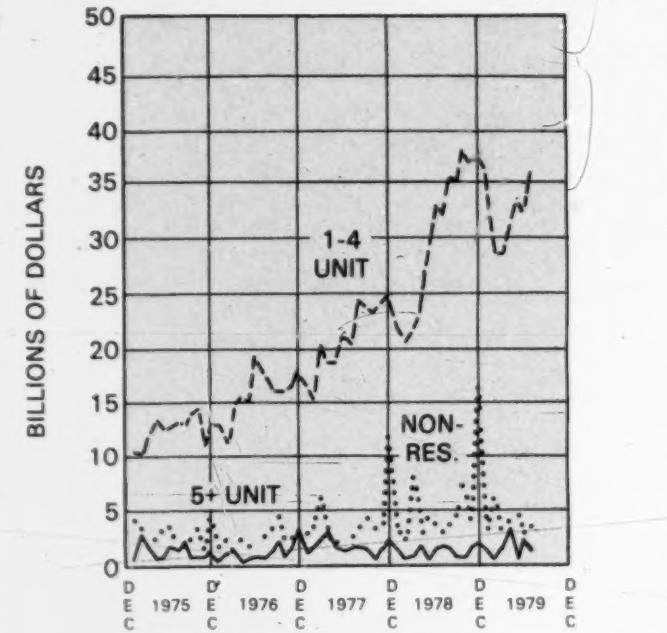
⁹Data from March 1979 not comparable to previous figures due to change in size of survey

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration

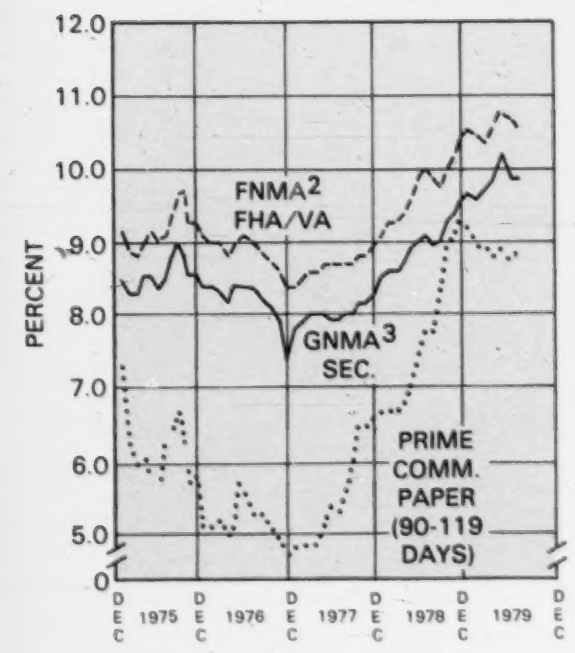
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



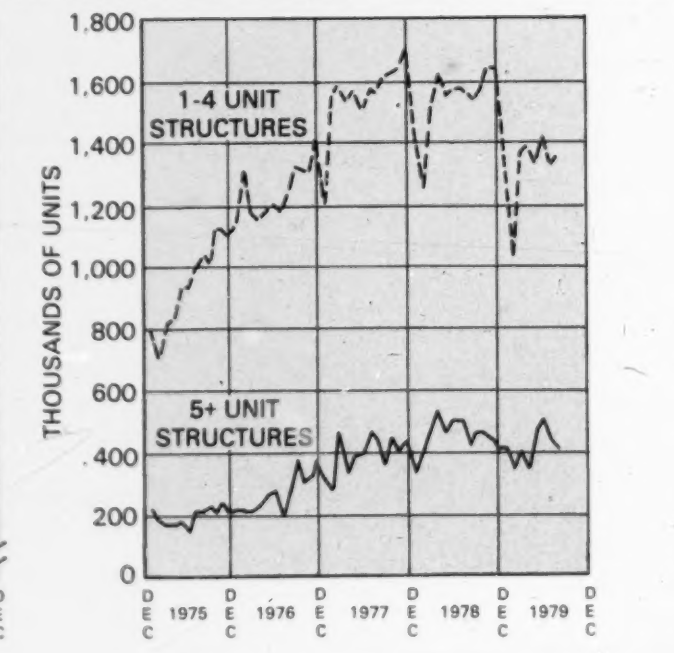
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED SEASONALLY ADJUSTED ANNUAL RATES



SELECTED YIELDS



HOUSING STARTS SEASONALLY ADJUSTED ANNUAL RATES



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100
 2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
 3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.
- SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA — ECONOMICS DEPARTMENT



Shedding
Some Light
on Income
Property

Mortgage Banker

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MORTGAGE MARKET TRENDS

Prepared By MBA's Economics Department

October 19, 1979

Despite record interest rates and rapidly escalating prices, the housing industry held firm in the third quarter of 1979. House sales and loan origination volumes remained high, and housing starts averaged a relatively strong annual rate of 1.83 million units. However, the forces are now in place to bring about a rapid decline in housing activity in the coming months.

The long anticipated recession should finally become a reality in the early part of next year when the effects of the recent Federal Reserve actions aimed at easing inflation have filtered through the economy. This long overdue credit-tightening move by the Fed will most likely have the desired anti-inflationary effect, but it will come at the cost of a sharp decline in economic activity. Thus, while the factors that have supported the recent housing boom remain in place—namely, the maturation of the post-war baby boom and the housing market's deep-rooted inflationary psychology—the deteriorating state of the economy will finally hobble the housing sector.

While the Fed has long espoused the anti-inflation cause, it was not until early October that it took any concrete measures to substantially tighten credit. Previously, the Fed had relied almost exclusively on adjustments in the federal funds targets in waging its battle against inflation. The result was an escalation in the price of credit but little curtailment in its availability. Now, we should see shortages in credit availability. A substantial increase in the cost of marginal funds, resulting from the implementation of increased reserve requirements on certain member bank liabilities, will force banks into rather stringent credit rationing.

Mortgage lenders for some time have been facing a shortage in the supply of loanable funds due to the decreased savings flows to the thrifts. The escalation in short-term rates that immediately followed the Fed move will only serve to exacerbate this problem. Thus, faced with increased disintermediation, coupled with the rising cost of funds, mortgage lenders too will be forced to ration their dwindling loan supply.

Waning economic activity over the next six to nine months will result in rising unemployment and declining real income levels. These factors, high interest rates, and reduced availability of mortgage funds will force consumers to postpone their house buying plans, at least until the economy begins to pick up steam again in the latter half of 1980.

Frances E. Wrocklage
Senior Economist

MORTGAGE MARKET TRENDS - NOVEMBER, 1979

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate								Sold	Avail- able For Sale	Months Supply at Current Rate
	1-4	5+	Total	1-4	5+	Total	1-4	5+	Total	1-4	5+	Total	1	2+	Non-Res					
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Res				
1978	184	133	51	1,821	1,279	542	216	168	48	2,093	1,582	511	113,910	63,195	13,373	37,342	382	77	422	5.5
JUN	140	102	38	1,630	1,142	490	192	152	40	2,104	1,589	515	115,359	63,344	14,346	37,669	351	68	420	6.2
JUL	146	109	37	1,563	1,145	418	191	151	40	2,004	1,568	436	114,679	63,273	13,806	37,600	395	72	421	5.8
AUG	141	99	42	1,731	1,277	514	181	135	46	2,024	1,544	480	115,051	63,063	13,742	38,246	329	68	419	6.2
SEP	148	107	41	1,719	1,260	489	192	145	47	2,054	1,571	483	115,529	63,460	13,366	38,703	335	70	414	5.9
OCT	129	91	38	1,724	1,245	479	158	122	36	2,107	1,652	455	118,608	64,884	14,024	39,700	303	53	422	8.0
NOV	104	71	33	1,664	1,285	379	120	89	31	2,074	1,658	416	120,739	66,243	14,251	40,245	236	51	421	8.3
DEC	81	56	25	1,324	950	365	88	64	24	1,679	1,263	416	112,999	61,407	13,208	38,384	245	53	411	7.8
1979	84	57	27	1,321	878	443	84	64	20	1,381	1,029	352	115,191	62,308	14,663	38,220	263	58	399	5.3
JAN	141	103	38	1,531	1,103	428	153	120	33	1,786	1,382	404	119,211	61,376	14,967	42,868	336	73	416	5.7
FEB	139	106	33	1,437	1,082	355	161	131	30	1,745	1,393	352	118,621	59,868	16,108	42,645	336	72	417	5.7
MAR	162	111	41	1,618	1,163	455	189	144	45	1,835	1,345	490	120,904	59,735	15,932	45,248	374	69	426	6.2
APR	156	112	44	1,639	1,144	495	193	147	46	1,935	1,419	516	124,452	60,363	17,300	46,789	348	64	420	6.6
MAY	138	104	34	1,528	1,136	392	164	130	34	1,791	1,360	431	125,507	60,554	17,196	47,757	347	66	421	6.3
JUN	152	111	41	1,654	1,181	473	172	133	39	1,806	1,400	406	123,828p	60,315p	16,741p	46,792p	381	70p	419p	6.0p
JUL	136p	91p	45p	1,733p	1,184p	549p	161p	117p	44p	1,181p	1,372p	509p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8 months	1,053	770	283				1,204	933	271								2,630	525		
1979	1,137	834	303				1,310	1,069	301								2,702	577		
1978	1,131p	852	279				1,333	1,067	266								2,439	580		
1977	825	656	169				1,003	838	165								2,061	438		
1976																				

RESIDENTIAL STRUCTURES, BY REGION

(Units in thousands)

CONSTRUCTION STATUS

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS				
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate											
	North	South	East	West	North	South	East	West	North	South	East	West	North	South	East	West								
	North	South	East	West	North	South	East	West	North	South	East	West	North	South	East	West								
1978	19	42	53	72	191	363	538	729	23	56	81	56	212	474	869	538	1,340	895	445	167	129	38		
JUN	18	34	36	42	219	377	553	483	22	47	71	52	219	465	861	559	1,363	919	444	166	125	41		
JUL	19	37	48	42	189	381	533	460	21	43	76	50	217	419	803	565	1,373	928	445	178	139	39		
AUG	18	37	48	39	204	424	602	501	22	42	73	44	233	448	808	535	1,371	918	453	181	145	36		
SEP	16	37	53	42	162	375	657	525	21	27	78	46	206	432	879	537	1,381	913	468	180	146	34		
OCT	16	28	48	36	196	355	670	503	17	43	62	37	186	526	852	543	1,371	900	471	167	134	33		
NOV	13	16	39	36	198	327	612	527	14	19	47	39	238	447	786	603	1,310	848	462	170	136	34		
DEC	10	8	35	29	189	198	500	437	8	7	45	28	275	245	745	414	1,270	813	457	129	100	29		
1979	6	10	37	31	140	229	506	446	6	7	42	29	168	184	614	450	1,223	776	447	126	97	29		
JAN	12	25	62	42	143	294	646	448	12	6	75	40	177	363	794	452	1,216	777	439	149	113	36		
FEB	14	31	51	43	142	297	543	455	15	34	65	47	160	354	690	541	1,228	793	435	142	111	31		
MAR	18	37	60	48	181	328	616	493	18	50	72	51	170	412	746	507	1,259	831	438	156	113	43		
APR	18	34	59	45	199	332	636	472	19	24	79	51	181	377	890	487	1,283	837	446	166	130	36		
MAY	15	27	51	45	161	281	585	501	18	36	68	43	182	351	794	464	1,300	852	448	151	146	35		
JUN	15	30	59	47	147	310	664	533	20	39	74	40	183	384	786	453	1,309p	863p	446p	158p	122p	36p		
JUL	18p	29p	51p	38p	213p	334p	664p	522p	14p	37p	66p	44p	151p	415p	756p	559p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		
8 months	108	202	414	330	116	203	520	329	126	299	564	380	1,177	902	275	1,169	924	245	1,011	822	189	851	684	187
1979	117	250	429	391	132	310	520	371	106	261	381	174	1,177	902	275	1,169	924	245	1,011	822	189	851	684	187
1977	120	245	383	364	132	310	520	371	106	261	381	174	1,177	902	275	1,169	924	245	1,011	822	189	851	684	187
1976	95	202	269	262	106	261	381	174	106	261	381	174	1,177	902	275	1,169	924	245	1,011	822	189	851	684	187

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ⁴	CONSTRUCTION LOANS ⁵ ALL TYPES	FNMA FMS Auction Yields on 4 mo Commitments ⁶ FHA/VA Conv	GNMA Current Securities Yield ⁷	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Option Surveys			FHB Surveys							Aaa Utility New Issue	U.S. Gov't 10-yr 26-wk	Prime Commercial Paper 90-119 Days	FHA New minus Aaa Utility	GNMA minus 10-yr Gov't	
	Conventional		Existing	Conventional		Existing										
	FHA New ¹															
		New	Existing	New	Existing											
1978																
JUN	n.a.	9.75	9.75	9.46	9.48	9.750-10.00		9.918	10.092	9.09	9.09	8.46	7.200	7.59	n.a.	63
JUL	9.92	9.80	9.80	9.57	9.63	9.750-10.00		10.016	10.188	9.18	9.14	8.64	7.471	7.85	78	54
AUG	9.78	9.80	9.80	9.70	9.77	9.750-10.250	10.43	9.801	10.101	8.98	8.82	8.41	7.363	7.83	96	57
SEP	9.78	9.80	9.85	9.73	9.84	9.720-10.125		9.782	10.015	9.09	8.86	8.42	7.948	8.39	92	67
OCT	9.93	9.95	9.95	9.83	9.90	9.750-10.125		10.053	10.198	9.13	9.17	8.64	8.493	8.98	76	69
NOV	9.99	10.10	10.15	9.86	9.97	9.750-10.125	11.55	10.293	10.560	9.43	9.27	8.81	9.204	10.14	72	62
DEC	10.16	10.30	10.30	10.02	10.08	9.875-10.125		10.508	10.825	9.61	9.28	9.01	9.397	10.37	88	60
1979																
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.54	9.10	9.501	10.25	63	60
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250		10.506	11.040	9.68	9.53	9.10	9.349	9.95	64	60
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375	11.79	10.421	10.912	9.73	9.62	9.12	9.458	9.90	57	61
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	60
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.59	9.91	9.062	9.76	99	90
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	9.85	9.236	9.87	87	86
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	n.a.	10.671	11.517	9.97	9.48	9.99	9.425	10.27	110	98
SEP	n.a.	n.a.	n.a.	11.02	11.19	10.625-10.875		11.091	11.741	10.40	9.93	9.33	10.203	11.63	n.a.	107

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos.
1978																				
APR	14,389	2,870	5,421	5,296	802	11,030	2,320	5,020	3,647	43	863	180	241	286	156	2,496	370	160	1,363	603
MAY	16,667	3,230	6,560	6,048	829	13,225	2,760	6,144	4,280	41	682	40	280	267	95	2,760	430	136	1,501	693
JUN	20,015	3,820	7,541	7,552	1,102	15,843	3,320	7,096	5,335	92	885	140	261	341	143	3,287	360	184	1,876	867
JUL	17,248	3,690	5,888	6,752	918	13,542	3,200	5,570	4,717	55	832	180	186	302	164	2,874	310	132	1,733	699
AUG	19,794	4,120	6,948	7,710	1,016	15,640	3,570	6,601	5,414	55	855	150	229	351	125	3,299	400	118	1,945	836
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,524	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,237	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	n a	5,679p	6,452p	n a	n a	n a	5,011p	6,179p	n a	n a	n a	151p	157p	n a	n a	n a	517p	116p	n a	n a

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED, UNITS			INSURED							
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos.	Total	FHA/VA	Private	Total	FHA(203)	VA	Private	Units	Am't		
1978																					
APR	70,450	15,100	23,398	11,646	20,306	19,250	4,260	9,466	3,498	2,026	162	92	70	102	3,813	20	624	25	989	57	2,200
MAY	74,237	16,410	23,939	12,646	21,242	21,300	4,620	10,098	4,321	2,261	179	96	83	115	4,275	23	713	30	1,180	62	2,382
JUN	75,381	16,870	22,927	13,171	22,413	21,125	4,960	9,198	4,215	2,752	162	85	77	117	4,441	20	635	28	1,109	69	2,697
JUL	77,100	17,920	22,393	13,649	23,138	18,482	4,780	7,925	3,672	2,105	155	89	66	114	4,179	22	691	29	1,179	63	2,509
AUG	74,650	17,060	22,047	12,432	23,111	17,618	3,810	8,924	3,251	1,633	169	96	73	129	4,935	23	761	33	1,319	73	2,855
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710	128	73	65	102	3,949	18	584	22	881	62	2,484
OCT	75,247	16,570	21,303	13,545	23,629	19,065	5,450	8,594	3,081	1,940	188	122	66	131	4,931	40	1,279	28	1,179	63	2,473
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	76,264	18,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497	n a	n a	58	n a	n a	n a	31	1,423	57	2,515	
AUG	n a	16,578p	22,114p	n a	n a	n a	6,094p	n a	n a	n a	n a	n a	59	n a	n a	n a	35	1,695	56	2,435	

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

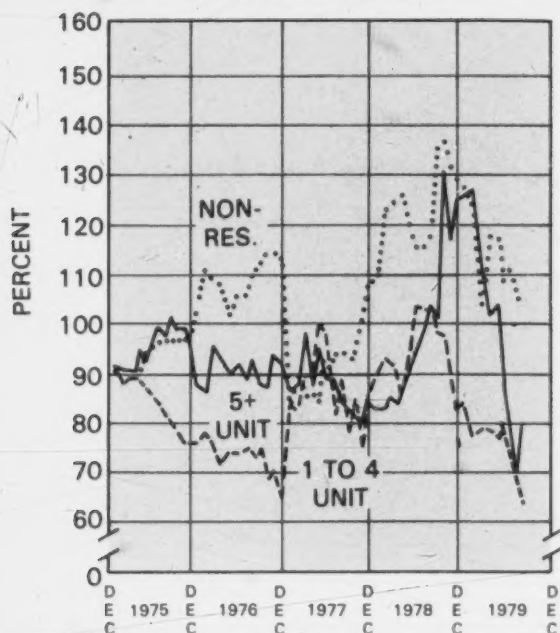
MORTGAGE BANKERS' CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

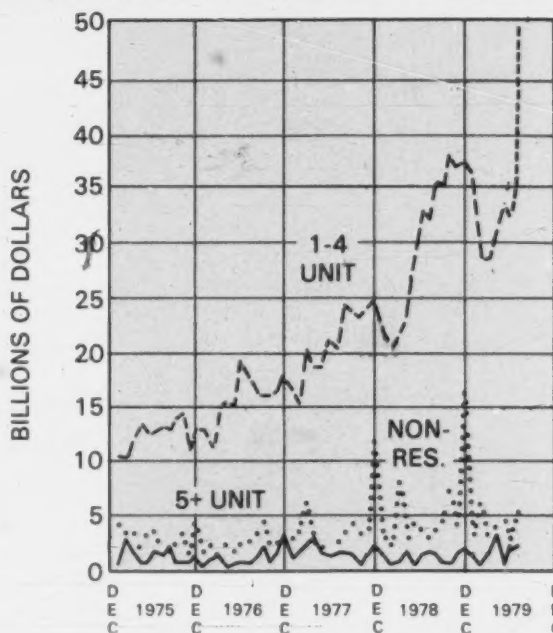
Year and Month	FNMA				FHL MC			GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS				
	4-Month Commitments			12 Month Convert Standby	Comm	Purc	Sold	Pass-Through Securities		Construction				Land Loans	Total	1-4 Units	5+ Units	Non-res	
	FHA/VA Bid	Accept	Conventional Bid					Accept	Applications	Issued	Total	1-4 Units	5+ Units						Non-res
1978	1,095	637	574	342	491	762	500	793	2,811	999	520	260	120	140	40	3,940	1,510	1,020	1,410
JUN	757	472	316	179	299	738	520	725	3,028	997	440	220	100	120	40	4,120	1,550	1,080	1,490
JUL	499	277	225	128	126	838	742	299	3,907	1,648	530	240	150	140	40	4,370	1,570	1,110	1,690
AUG	718	336	485	284	283	678	670	402	3,036	1,203	510	250	100	160	40	4,290	1,510	1,140	1,640
SEP	1,965	832	1,157	496	502	514	791	370	3,580	1,762	600	260	160	180	60	4,320	1,530	1,180	1,610
OCT	788	322	861	387	507	582	765	581	2,869	1,721	570	260	120	190	40	4,150	1,520	1,110	1,520
NOV	627	320	417	221	319	293	598	340	3,295	1,381	620	270	180	170	40	4,190	1,550	1,130	1,510
DEC																			
1979	305	155	114	58	132	327	498	321	2,925	1,426	550	250	100	200	50	4,400	1,700	1,140	1,560
JAN	211	161	63	45	89	295	401	291	2,892	1,304	420	230	80	110	30	4,130	1,640	960	1,530
FEB	508	284	145	114	71	427	350	116	2,680	1,453	470	280	80	110	40	4,620	1,700	1,150	1,770
MAR	1,323	638	662	364	517	492	558	363	5,907	1,488	570	300	120	150	50	5,250	1,610	1,230	1,410
APR	426	185	459	214	503	601	560	572	3,009	1,673	560	330	100	130	60	3,910	1,820	740	1,350
MAY	220	100	358	195	277	462	447	182	3,621	1,860	700	450	110	140	50	4,460	2,060	1,120	1,280
JUN	133	70	94	70	160	517	518	320	6,211	2,032	594	312	121	161	59	4,010	1,870	870	1,270
JUL	162	83	246	184	184	n a	n a	n a	5,105	2,933	756p	308p	172p	276p	88p	4,268p	2,016p	800p	1,452p
AUG	1,421	600	527	326	343	n a	n a	n a	4,012	2,640	n a	n a	n a	n a	n a	n a	n a	n a	n a
SEP																			

n a - Not available; p - Preliminary

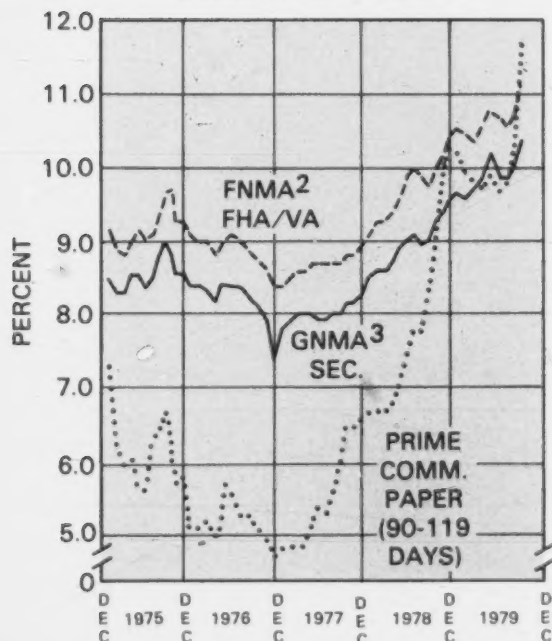
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



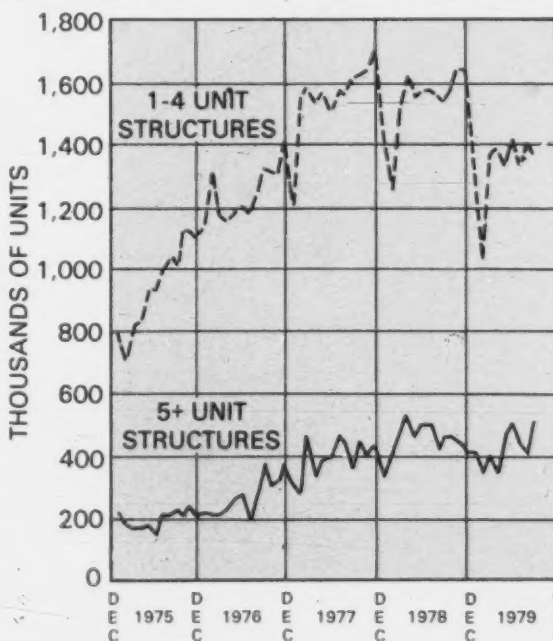
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED SEASONALLY ADJUSTED ANNUAL RATES



SELECTED YIELDS



HOUSING STARTS SEASONALLY ADJUSTED ANNUAL RATES



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
 2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
 3. SURVEY OF THREE NEW YORK SECURITY DEALERS' SECURITIES FOR IMMEDIATE DELIVERY.
- SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

AB450-202 A

Mortgage Banker

December 1979



Robert G. Boucher



G. William Miller



Harrison A. Williams, Jr.



Moon Landrieu

**FINANCIAL
LEADERS
LOOK AT**

1980

Mortgage Banker

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Jane B. Steinmetz

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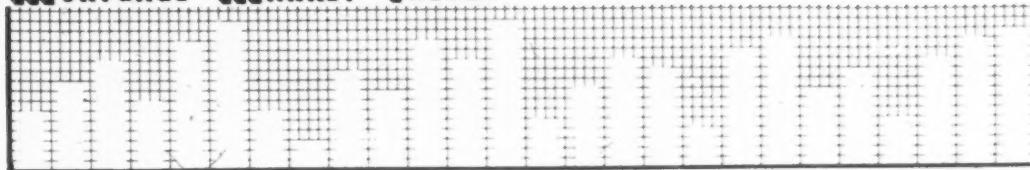
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MORTGAGE MARKET TRENDS



Prepared By MBA's Economics Department

November 15, 1979

The long anticipated decline in housing activity appears to be upon us. However, the impact of the recent credit crunch on the housing market will not be fully visible in the statistics for several months to come. Outstanding mortgage commitments will keep the new home sales market alive for the next month or two. But after the first of the year, housing starts should experience a sharp drop.

The market for existing homes is feeling the pinch already. Disintermediation has forced many thrift institutions to cut back severely on their mortgage lending activity. Quickening the pinch is the situation that usury ceilings in half of the states are at, or below, current market interest rates. Consequently, lenders in such states are resorting to credit rationing measures such as higher downpayments, lending only to established customers, or not lending at all.

In light of the adverse usury situation, the Federal National Mortgage Association has ceased buying loans with rates in excess of the ceiling in 24 states where usury ceilings are below the current yield in the FNMA auction of four-month commitments to buy conventional home mortgages.

In previous tight money periods, the saving grace in many states with low usury ceilings was the fact that FHA-insured and VA-guaranteed loans were exempt from these ceilings. As a result, FHA/VA lending served as a safety valve when conventional lending dried up. Unfortunately, at this juncture, a number of factors are mitigating the ability of the government-insured loan programs to sustain the housing market through the current crisis. First, the \$60,000 maximum mortgage amount on FHA loans is below the current median home price. And second, the administered FHA/VA rate continues to lag behind market rates, resulting in significant discounts.

There are, however, a few bright spots on the horizon. Chief among these is the fact that the housing market will most probably weather the recession in 1980 much better than it did the one in 1974. The reason for this is that we are not facing an inventory problem. The current economic slowdown has been long anticipated, and, as a result, builders have been very cautious about lining up mortgage commitments prior to construction. In addition, demand factors remain strong in all sectors of the housing market. Thus, starts and sales should begin to pick up around mid-year when the economy shows signs of recovery.

Frances E. Wrocklage
Senior Economist

MORTGAGE MARKET TRENDS—DECEMBER 1979

RESIDENTIAL STRUCTURES, BY UNIT TYPE (Units in thousands)												VALUE OF NEW CON- STRUCTION PUT IN PLACE (Dollars in millions)				HOUSE SALES (Units in thousands)				
Year and Months	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate								Available Supply at		
													Months Current Rate							
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1 Unit	2+ Units	Non- Res	Sold	For Sale		
1978																				
JUN	184	133	51	1,821	1,279	542	216	168	48	2,093	1,582	511	113,910	63,195	13,373	37,342	382	77	422	5.5
JUL	140	102	38	1,632	1,142	490	192	152	40	2,104	1,589	515	115,359	63,344	14,346	37,669	351	68	420	6.2
AUG	146	109	37	1,563	1,145	418	191	151	40	2,004	1,568	436	114,679	63,273	13,806	37,600	395	72	421	5.8
SEP	141	99	42	1,731	1,217	514	181	135	46	2,024	1,544	480	115,051	63,063	13,742	38,246	329	68	419	6.2
OCT	148	107	41	1,719	1,260	459	192	145	47	2,054	1,571	483	115,529	63,460	13,366	38,703	335	70	414	5.9
NOV	129	91	38	1,724	1,245	479	158	122	36	2,107	1,652	455	118,608	64,884	14,024	39,700	303	53	422	8.0
DEC	104	71	33	1,664	1,285	379	120	89	31	2,074	1,658	416	120,739	66,243	14,251	40,245	236	51	421	8.3
1979																				
JAN	81	56	25	1,324	959	365	88	64	24	1,679	1,263	416	112,999	61,407	13,208	38,384	245	53	411	7.8
FEB	84	57	27	1,321	878	443	84	64	20	1,381	1,029	352	115,191	62,308	14,663	38,222	263	58	399	5.3
MAR	141	103	38	1,531	1,103	428	153	120	33	1,786	1,382	404	119,211	61,376	14,967	42,868	336	73	416	5.7
APR	139	106	33	1,437	1,082	355	161	131	30	1,745	1,393	352	118,621	59,868	16,108	42,645	336	72	417	5.7
MAY	162	111	41	1,618	1,163	455	189	144	45	1,835	1,345	490	120,904	59,735	15,932	45,248	374	69	426	6.2
JUN	156	112	44	1,639	1,144	495	193	147	46	1,935	1,419	516	124,452	60,363	17,300	46,789	348	64	420	6.6
JUL	138	104	34	1,528	1,136	392	164	130	34	1,791	1,360	431	125,507	60,554	17,196	47,757	347	66	421	6.3
AUG	152	111	41	1,654	1,181	473	172	133	39	1,806	1,400	406	123,828p	60,315p	16,741p	46,792p	381	70p	419p	6.0p
SEP	136p	91p	45p	1,733p	1,184p	549p	161p	117p	44p	1,181p	1,372p	509p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
8 months																				
1979	1,053	770	283				1,204	933	271								2,630	525		
1978	1,137	834	303				1,310	1,069	301								2,702	577		
1977	1,131	852	279				1,333	1,067	286								2,439	580		
1976	825	656	169				1,003	838	165								2,061	438		

RESIDENTIAL STRUCTURES, BY REGION																CONSTRUCTION STATUS											
(units in thousands)																(units in thousands)											
Year and Month	PERMITS 16,000 ISSUING PLACES										STARTS						UNDER CONSTRUCTION			COMPLETIONS							
	Actual					Seasonally Adjusted Annual Rate					Actual					Seasonally Adjusted Annual Rate											
	North East	North Central	South	West		North East	North Central	South	West		North East	North Central	South	West		North East	North Central	South	West		Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	
JUN 1978	19	42	53	72		191	363	538	729		23	56	81	56		212	474	869	538		1,340	895	445	167	129	38	
JUN 1978	18	34	36	42		219	377	553	483		22	47	71	52		219	465	861	559		1,363	919	444	166	125	41	
AUG 1978	19	37	48	42		189	381	533	460		21	43	76	50		217	419	803	565		1,373	928	445	178	139	39	
SEP 1978	18	37	48	39		204	424	602	501		22	42	73	44		233	448	808	535		1,371	918	453	181	145	36	
OCT 1978	16	37	53	42		162	375	657	525		21	27	78	46		206	432	879	537		1,381	913	468	180	146	34	
NOV 1978	16	28	48	36		196	355	670	503		17	43	62	37		186	526	852	543		1,371	900	471	167	134	33	
DEC 1978	13	16	39	30		198	327	612	527		14	19	47	39		238	447	786	603		1,370	848	462	170	136	34	
JAN 1979	10	8	35	29		189	198	500	437		8	7	45	28		275	245	745	414		1,270	813	457	129	100	29	
FEB 1979	6	10	37	31		140	229	506	446		6	7	42	29		168	184	614	450		1,223	776	447	126	97	29	
MAR 1979	12	25	62	42		143	294	646	448		12	6	75	40		177	363	794	452		1,216	777	439	149	113	36	
APR 1979	14	31	51	43		142	297	543	455		15	34	65	47		160	354	690	541		1,228	793	435	142	111	31	
MAY 1979	18	37	60	48		181	328	616	493		18	50	72	51		170	412	746	507		1,259	831	428	156	113	43	
JUN 1979	18	34	59	45		199	332	636	472		19	24	79	51		181	377	890	487		1,283	837	446	166	130	36	
JUL 1979	15	27	51	45		161	281	585	501		18	36	68	43		182	351	794	464		1,300	852	448	151	116	35	
AUG 1979	15	30	59	47		147	310	664	533		20	39	74	40		183	384	786	453		1,309p	863p	446p	158p	122p	36p	
SEP 1979	18p	29p	51p	38p		213p	334p	664p	522p		14p	37p	66p	44p		151p	415p	756p	559p		na	na	na	na	na	na	
8 months																											
1979	108	202	414	330							116	203	520	329										1,177	902	275	
1978	117	250	429	391							126	299	564	380										1,169	924	245	
1977	120	245	383	364							132	310	520	371										1,011	822	189	
1976	95	202	269	262							106	261	381	174										851	684	167	

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ⁴	CONSTRUCTION LOANS ⁵ ALL TYPES	FIMA FMS Auction Yields on 4 mo Commitments ⁶ FHA/VA Conv	GSMMA Current Securities Yield ⁷	SELECTED SECURITIES					SPREADS (Basis Points)		
	FHA Opinion Survey			FHLMH Survey							Add Unlvs New Issue	Prime Commercial Paper 90-119 Days	FHA New Minus Xaa Unlty	GSMMA 10-yr Conv ⁸				
	Conventional		Conventional	New	Existing	New									Existing			
	FHA New ¹	Conventional																
1978																		
JUN	9.18	9.75	9.75	9.46	9.48	9.750-10.00		9.918	10.092	9.09	9.09	8.46	7.200	7.59		na	63	
JUL	9.92	9.80	9.80	9.57	9.63	9.750-10.00		10.016	10.188	9.18	9.14	8.64	7.471	7.85		78	54	
AUG	9.78	9.80	9.80	9.70	9.77	9.750-10.250	10.43	9.801	10.101	8.98	8.82	8.41	7.363	7.83		96	57	
SEP	9.78	9.80	9.85	9.73	9.84	9.720-10.125		9.782	10.015	9.09	8.86	8.42	7.948	8.39		92	67	
OCT	9.93	9.95	9.95	9.83	9.90	9.750-10.125		10.053	10.198	9.33	9.17	8.64	8.493	8.98		76	69	
NOV	9.99	10.10	10.15	9.86	9.97	9.750-10.125	11.55	10.293	10.560	9.43	9.27	8.81	9.204	10.14		72	62	
DEC	10.16	10.30	10.30	10.02	10.08	9.875-10.125		10.508	10.825	9.61	9.28	9.01	9.397	10.37		88	60	
1979																		
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.54	9.10	9.501	10.25		63	60	
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250		10.506	11.040	9.68	9.53	9.10	9.349	9.95		64	60	
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375	11.79	10.423	10.932	9.73	9.62	9.12	9.458	9.90		57	61	
APR	na	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85		na	68	
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94		78	79	
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76		99	90	
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87		87	86	
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	na	10.671	11.517	9.97	9.48	8.99	9.425	10.27		110	98	
SEP	na	na	na	11.02	11.19	10.625-10.875		11.091	11.741	10.40	9.93	9.33	10.203	11.63		na	107	

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos
1978																				
APR	14,389	2,870	5,421	5,296	802	11,030	2,320	5,020	3,647	43	863	180	241	286	156	2,496	370	160	1,363	603
MAY	16,667	3,230	6,560	6,048	829	13,225	2,760	6,144	4,280	41	682	40	280	267	95	2,760	430	136	1,501	693
JUN	20,015	3,820	7,541	7,552	1,102	15,843	3,320	7,096	5,335	92	885	140	261	341	143	3,287	360	184	1,876	867
JUL	17,248	3,690	5,888	6,752	918	13,542	3,200	5,570	4,717	55	832	180	186	302	164	2,874	310	132	1,733	699
AUG	19,794	4,120	6,948	7,710	1,016	15,640	3,570	6,601	5,414	55	855	150	229	351	125	3,299	400	118	1,945	836
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,568	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,237	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	n.a.	5,679p	6,452p	n.a.	n.a.	n.a.	5,011p	6,179p	n.a.	n.a.	n.a.	151p	157p	n.a.	n.a.	n.a.	517p	116p	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED, UNITS			INSURED							
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	FHA/VA	Private	Total	FHA(203)	VA	Private	Units	Units	Units	Units
1978																					
APR	70,450	15,100	23,398	11,646	20,306	19,250	4,260	9,466	3,498	2,026	162	92	70	102	3,813	20	624	25	989	57	2,200
MAY	74,237	16,410	23,939	12,646	21,242	21,300	4,620	10,098	4,321	2,261	179	96	83	115	4,275	23	713	30	1,180	62	2,382
JUN	75,381	16,870	22,927	13,171	22,413	21,125	4,960	9,198	4,215	2,752	162	85	77	117	4,441	20	635	28	1,109	69	2,697
JUL	77,100	17,020	22,393	13,649	23,138	18,482	4,780	7,925	3,672	2,105	155	89	66	114	4,379	22	691	29	1,179	63	2,509
AUG	74,650	17,060	22,047	12,432	23,111	17,618	3,810	8,924	3,251	1,633	169	96	73	129	4,935	23	761	33	1,319	73	2,855
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710	138	73	65	102	3,949	18	584	22	881	62	2,484
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940	188	122	66	131	4,931	40	1,279	28	1,179	63	2,473
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,827	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497	n.a.	n.a.	58	n.a.	n.a.	n.a.	n.a.	31	1,423	57	2,515
AUG	n.a.	16,578p	22,114p	n.a.	n.a.	n.a.	6,094p	n.a.	n.a.	n.a.	n.a.	n.a.	59	n.a.	n.a.	n.a.	n.a.	35	1,695	56	2,435

MORTGAGE INSURANCE

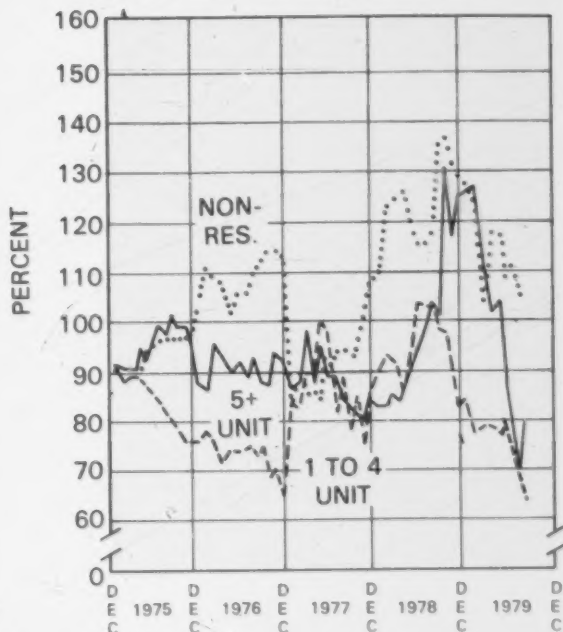
(Units in thousands, dollars in millions)

SECONDARY MARKET ACTIVITY

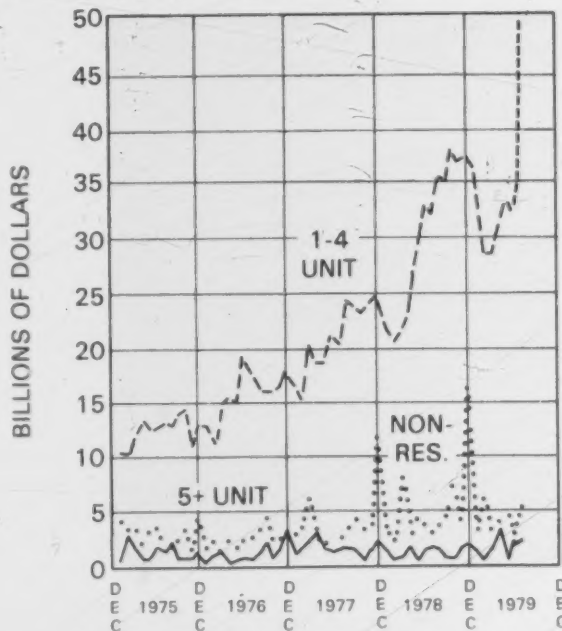
(Dollars in Millions)

Year and Month	FNMA				FHLMC			GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENT TO BORROWERS					
	4-Month Commitments		12 Month Convert Standby	Comm	Purc	Sold	Pass-Through Securities	Construction				Land Loans	Total	1-4 Units	5+ Units	Non-res.				
	FHA/VA Bid	Accept						Conventional Bid	Accept											
	Applications	Issued					Total	1-4 Units	5+ Units	Non-res.										
1978																				
JUN	1,095	637	574	342	491	762	500	793	2,811	999	520	260	120	140	40	3,940	1,510	1,020	1,410	
JUL	757	472	316	179	299	738	520	725	3,028	997	440	220	100	120	40	4,120	1,550	1,080	1,490	
AUG	499	277	225	128	126	838	742	299	3,907	1,648	530	240	150	140	40	4,370	1,570	1,110	1,690	
SEP	718	336	485	284	283	678	670	402	3,036	1,203	510	250	100	160	40	4,290	1,510	1,140	1,640	
OCT	1,965	832	1,157	496	502	514	791	370	3,580	1,762	600	260	160	180	60	4,320	1,530	1,180	1,610	
NOV	788	322	861	387	507	582	765	581	2,869	1,721	570	260	120	190	40	4,150	1,520	1,110	1,520	
DEC	627	320	417	221	319	290	598	340	3,295	1,381	620	270	180	170	40	4,190	1,550	1,130	1,510	
1979																				
JAN	305	155	114	58	132	327	498	321	2,925	1,426	550	250	100	200	50	4,400	1,700	1,140	1,560	
FEB	211	161	63	45	89	295	401	291	2,892	1,304	420	230	80	110	30	4,130	1,640	960	1,530	
MAR	508	284	145	114	71	427	350	116	2,680	1,453	470	280	80	110	40	4,620	1,700	1,150	1,770	
APR	1,323	638	662	364	517	492	358	363	5,907	1,488	570	300	120	150	50	4,250	1,610	1,230	1,410	
MAY	426	185	459	214	503	601	560	572	3,009	1,673	560	330	100	130	60	3,910	1,820	740	1,350	
JUN	220	100	358	195	277	462	447	182	3,621	1,860	700	450	110	140	50	4,460	2,060	1,120	1,280	
JUL	133	70	94	70	160	517	518	320	6,211	2,032	594	312	121	161	59	4,010	1,870	870	1,270	
AUG	162	83	246	184	184	n a	n a	n a	5,105	2,933	756p	308p	172p	276p	86p	4,268p	2,016p	800p	1,452	
SEP	1,421	600	527	326	343	n a	n a	n a	4,012	2,640	n a	n a	n a	n a	n a	n a	n a	n a	n a	

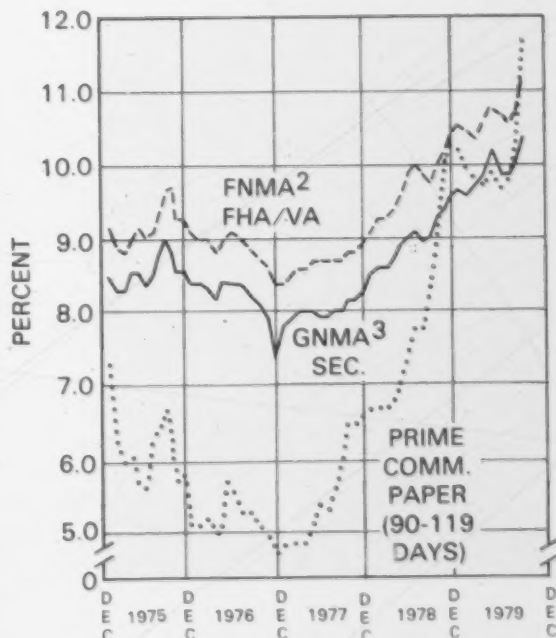
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



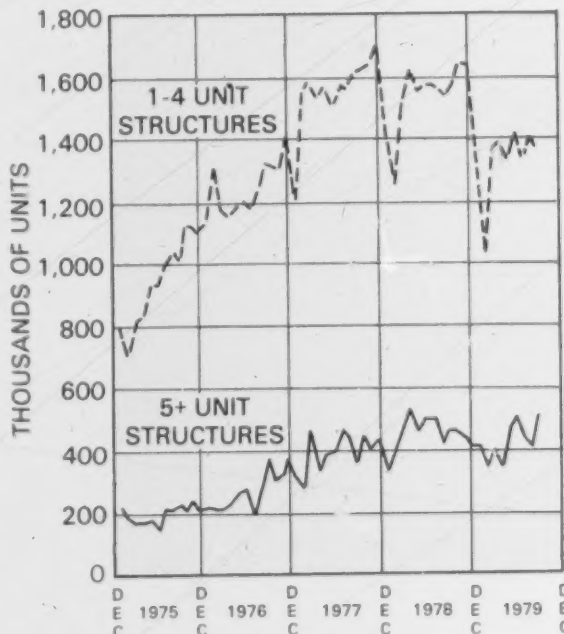
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED SEASONALLY ADJUSTED ANNUAL RATES



SELECTED YIELDS



HOUSING STARTS SEASONALLY ADJUSTED ANNUAL RATES



FOOTNOTES

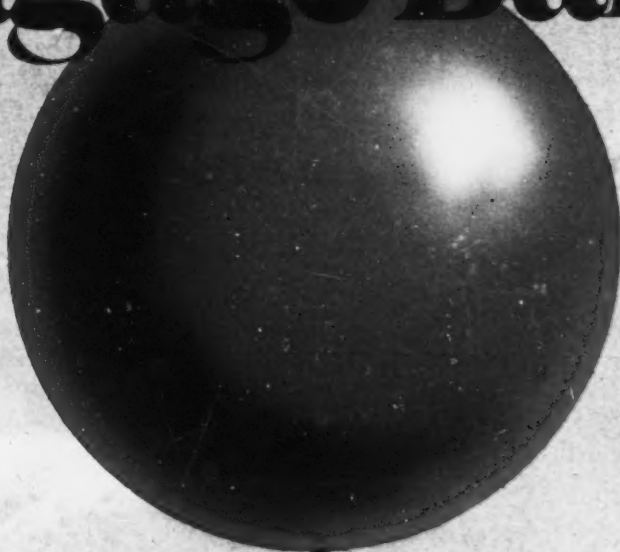
1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS, SECURITIES FOR IMMEDIATE DELIVERY.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA — ECONOMICS DEPARTMENT

Mortgage Banker

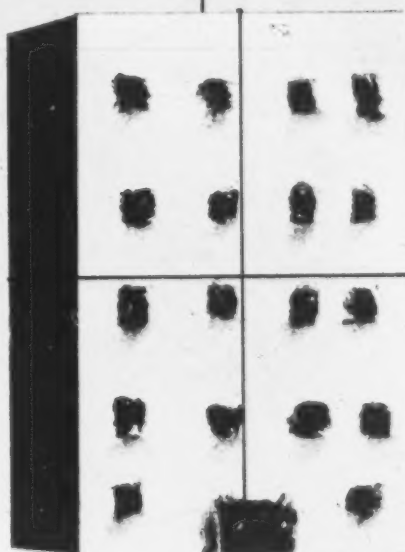
JANUARY 1980



*If Inflation
Dates*

**What
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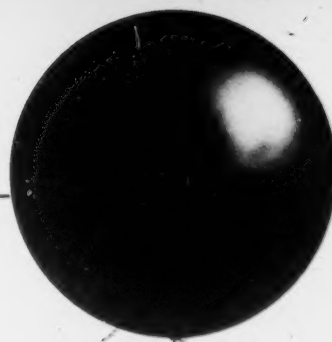
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Mortgage Banker

VOLUME 40 NUMBER 4 JANUARY 1980



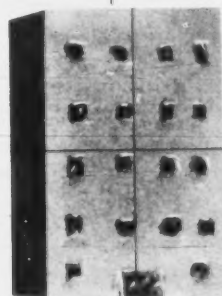
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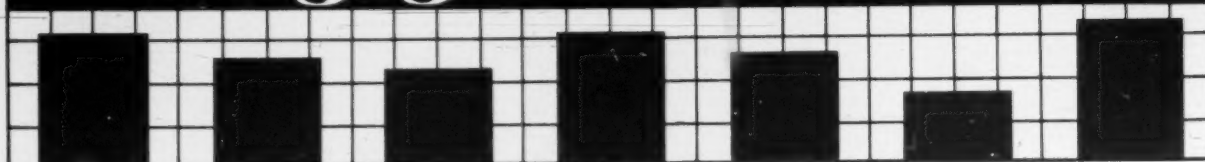
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JANUARY 1980

Mortgage Market Trends



Prepared by MBA's Economics Department

December 18, 1979

The recent melange of economic indicators should degenerate into a firm affirmation of recession early this year. But until then, and even during the recession, expect to see an occasional outburst of underlying vigor. While such things as growing unemployment, sagging income, and sizeable debt promise to humble the high-buying spirits of most consumers, these consumers will be anxiously awaiting their return to the marketplace.

The unemployment rate should make some real progress toward 7% by mid-year as production slowdowns and curtailments give rise to growing layoffs and as the absorption of new entrants and reentrants into the work force slows. Do not be too surprised if the unemployment rate approaches 8% before a general economic expansion resumes; residual employment strength in the service industries will yield to the heavy layoffs likely throughout the auto, steel, construction, and other manufacturing industries. With this dimming employment picture will come a slowing, and perhaps even an actual decline, in personal income. Real income, which has already been on a lengthy decline, will continue to fall for several more months before recovering as inflation is slowed.

Consumer spending will reflect this protracted income slump, as the abundant levels of consumer installment debt become more and more of a drag on consumers' diminishing real incomes. Look for rising delinquencies in the installment credit area, but not nearly so much for mortgages. People, for the most part, know where their financial priorities lie; in recent years, this has been in their house equity.

The weakening stance of the consumer will also be reflected in the housing and mortgage markets, but perhaps less than might traditionally be expected during recession. Housing starts, which should be down approximately 13% in 1979 from 1978's 2.02 million unit level, are likely to see a 15% drop in 1980 to the 1.5 million unit level, overall. This decline will be concentrated early in the year, followed by a moderate recovery during the second half of 1980. Of course, any number of factors, such as an aggressive GNMA tandem program on the positive side, or excessive credit tightening on a more negative side, might substantially alter 1980's housing outlook.

Sales of new and existing housing may be off 15 to 20% from 1979 levels, as interest rates, in general, maintain a relatively high profile. These rates will contribute to some degree of disintermediation and to the further suspension of both marginal and interest-sensitive buyers from the market. With the slowing of housing sales, as well as consumer prices in general, house price increases should subside to 10 to 12% for the year. The overall effect of these trends on residential mortgage loan originations will be substantial. Residential loan closings for the year will probably deteriorate to just under 1979's level; even rising prices will not compensate for falling sales levels. The lion's share of 1980's weakness will appear in the early part of the year, when ebbing origination volume and continuation of an adverse carry on warehouse lines will make for a less than auspicious start to the new decade.

If you were hoping to start the new year on a more optimistic note, all is not lost. There is still, and will continue to be, a very large segment of the population that will pursue housing at every opportunity. So with any respite in mortgage interest rates and return of consumer confidence, one of the consumer's first stops on their return to the marketplace will be the housing market.

Schuyler E. Schell, Assistant Economist

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos
1978																				
MAY	16,667	3,230	6,560	6,048	829	13,225	2,760	6,144	4,280	41	682	40	280	267	95	2,760	430	136	1,501	693
JUN	20,015	3,820	7,541	7,552	1,102	15,843	3,320	7,096	5,335	92	885	140	261	341	143	3,287	360	184	1,876	867
JUL	17,248	3,690	5,888	6,752	918	13,542	3,200	5,570	4,717	55	832	180	186	302	164	2,874	310	132	1,733	699
AUG	19,794	4,120	6,948	7,710	1,016	15,640	3,570	6,601	5,414	55	855	150	229	351	125	3,299	400	118	1,945	836
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,237	126	771	232	177	269	93	3,185	382	123	1,863	1,017
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149	2,808	525	127	1,282	874
SEP	n.a.	5,532	5,507	n.a.	n.a.	n.a.	4,681	5,191	n.a.	n.a.	n.a.	331	180	n.a.	n.a.	n.a.	520	136	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED UNITS			INSURED							
	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mig Bankers	S&Ls	Banks ⁸	Life Cos	Total	FHA/VA	Private	Total	FHA(203)	VA	Private	Units	Units	Units	Units
1978																					
MAY	74,237	16,410	23,939	12,646	21,242	21,300	4,620	10,098	4,321	2,261	179	96	83	115	4,275	23	713	30	1,180	62	2,382
JUN	75,381	16,870	22,927	13,171	22,413	21,125	4,960	9,198	4,215	2,752	162	85	77	117	4,441	20	635	28	1,109	69	2,697
JUL	77,100	17,920	22,393	13,649	23,138	18,482	4,780	9,925	3,672	2,105	155	89	66	114	4,379	22	691	29	1,179	63	2,509
AUG	74,650	17,060	22,047	12,432	22,111	17,618	3,810	8,924	3,251	1,633	169	96	73	129	4,935	23	761	33	1,319	73	2,855
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710	138	73	65	102	3,949	18	584	22	881	62	2,484
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940	188	122	66	131	4,931	40	1,279	28	1,179	63	2,473
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	n.a.	21,553	22,397	n.a.	n.a.	n.a.	5,203	n.a.	n.a.	n.a.	150	100	50	104	4,646	20	744	39	1,910	45	1,992

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA				FHLMC			GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	4-Month Commitments							Pass-Through Securities		Construction								
	FHA/VA Bid	Accept	Conventional Bid	Accept	12 Month Convert Standby	Comm	Purc	Sold	Applications Issued	Total	1-4 Units	5+ Units	Non-res	Land Loans	Total	1-4 Units	5+ Units	Non-res
1978																		
JUL	757	472	316	179	299	738	520	725	3,028	997	440	220	100	120	4,120	1,550	1,080	1,490
AUG	499	277	225	128	126	838	742	299	3,907	1,648	530	240	150	140	4,370	1,570	1,110	1,690
SEP	718	336	485	284	283	678	670	402	3,036	1,203	510	250	100	160	4,290	1,510	1,140	1,640
OCT	1,965	832	1,157	496	502	514	791	370	3,580	1,762	600	260	160	180	4,320	1,530	1,180	1,610
NOV	788	322	861	387	507	582	765	581	2,869	1,721	570	260	120	190	4,150	1,520	1,110	1,520
DEC	627	320	417	221	319	290	598	340	3,295	1,381	620	270	180	170	4,190	1,550	1,110	1,510
1979																		
JAN	305	155	114	58	132	327	498	321	2,925	1,426	550	250	100	200	4,400	1,700	1,140	1,560
FEB	211	161	63	45	89	295	401	291	2,892	1,304	420	230	80	110	4,130	1,640	960	1,530
MAR	508	284	145	114	71	427	500	116	2,680	1,453	470	280	80	110	4,620	1,700	1,150	1,770
APR	1,323	638	662	364	517	492	358	363	5,907	1,488	570	300	120	150	4,250	1,610	1,230	1,410
MAY	426	185	459	214	503	601	560	572	3,009	1,673	560	330	100	130	3,910	1,820	740	1,350
JUN	220	100	358	195	277	462	447	182	3,621	2,032	700	450	110	140	4,460	2,060	1,120	1,280
JUL	133	70	94	70	160	517	518	320	6,211	2,032	594	312	121	161	4,010	1,870	870	1,270
AUG	162	83	246	184	184	581	636	354	5,105	2,933	734	334	151	244	4,553	2,072	1,069	1,412
SEP	1,421	600	527	326	343	437	537	347	4,012	2,640	723	312	86	325	4,897	2,101	679	2,117
OCT	2,943	1,130	1,050	431	828	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. - Not available, p. - Preliminary

1 From the National Association of Realtors' "Existing Home Sales" series

2 Represents cumulative total through the latest month for each column

3 Secondary market gross yields

4 Benchmark rates, Citicorp Real Estate, Inc.

MORTGAGE MARKET TRENDS—JANUARY 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate								Available	Months Supply at	
	1-4		5+	1-4		5+	1-4		5+	1-4		5+	1		2+	Non-Res	Sold	For Sale	Current Rate	
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Res				
1978	140	102	38	1,632	1,142	490	192	152	40	2,104	1,589	515	115,359	63,344	14,346	37,669	351	68	420	6.2
JUL	146	109	37	1,563	1,145	418	191	151	40	2,004	1,568	436	114,679	63,273	13,806	37,600	395	72	421	5.8
AUG	141	99	42	1,731	1,217	514	181	135	46	2,024	1,544	480	115,051	63,063	13,742	38,246	329	68	419	6.2
SEP	148	107	41	1,719	1,260	459	192	145	47	2,054	1,571	483	115,529	63,460	13,366	38,703	335	70	414	5.9
OCT	129	91	38	1,724	1,245	479	158	122	36	2,107	1,652	455	118,608	64,884	14,024	39,700	303	53	422	8.0
NOV	104	71	33	1,664	1,285	379	120	89	31	2,074	1,658	416	120,739	66,243	14,251	40,245	236	51	421	8.3
DEC																				
1979	81	56	25	1,324	959	365	88	64	24	1,679	1,263	416	112,999	61,407	13,208	38,384	245	53	411	7.8
JAN	84	57	27	1,321	878	443	84	64	20	1,381	1,029	352	115,191	62,308	14,663	38,220	263	58	399	5.3
FEB	141	103	38	1,531	1,103	428	153	120	33	1,786	1,382	404	119,211	61,376	14,967	42,868	336	73	416	5.7
MAR	139	106	33	1,437	1,082	355	161	131	30	1,745	1,393	352	118,621	59,868	16,108	42,645	336	72	417	5.7
APR	162	111	41	1,618	1,163	455	189	144	45	1,835	1,345	490	120,904	59,735	15,932	45,248	374	69	426	6.2
MAY	156	112	44	1,639	1,144	495	193	147	46	1,935	1,419	516	124,452	60,363	17,300	46,789	348	64	420	6.6
JUN	138	104	34	1,528	1,136	392	164	130	34	1,791	1,360	431	125,507	60,554	17,196	47,757	347	66	421	6.3
JUL	152	111	41	1,654	1,181	473	172	133	39	1,806	1,400	406	125,398	60,522	17,775	47,101	381	69	419	6.1
AUG	140	90	50	1,775	1,166	609	164	117	47	1,921	1,376	545	125,801	60,352	18,726	46,723	317	62	414	6.7
SEP	141	96	45	1,542	1,064	478	169	122	47	1,762	1,298	464	126,085p	60,046p	17,198p	48,841p	334	57p	415p	7.3p
OCT																				
10 months	1,334	956	378				1,537	1,172	365								3,281	644		
1979	1,424	1,040	384				1,743	1,349	395								3,366	716		
1978	1,435	1,071	364				1,704	1,358	346								3,053	714		
1977	1,065	829	236				1,303	1,073	230								2,572	551		
1976																				

RESIDENTIAL STRUCTURES, BY REGION

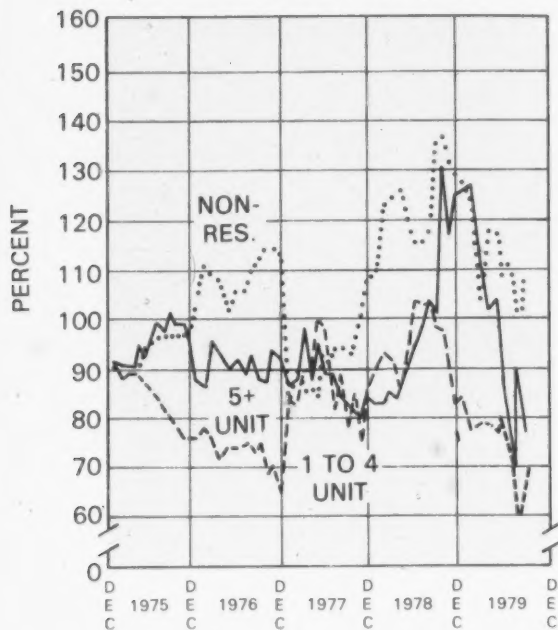
(Units in thousands)

CONSTRUCTION STATUS

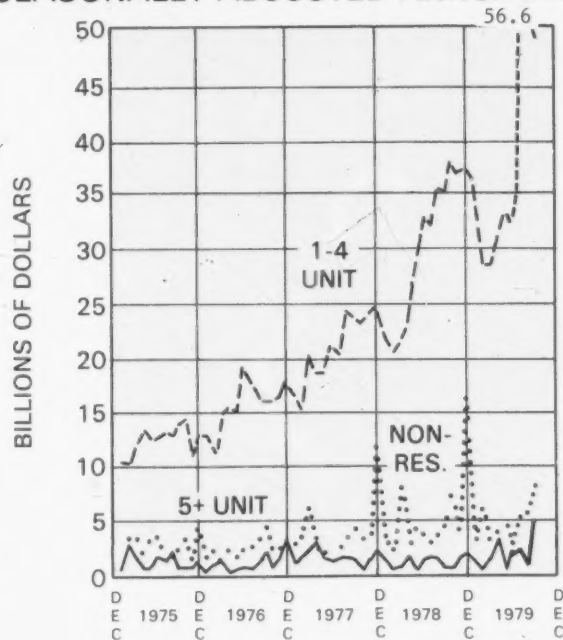
(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS		
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate									
	North	North			North	North			North	North			North	North			1-4	5+		1-4	5+	
	East	Central	South	West	East	Central	South	West	East	Central	South	West	East	Central	South	West	Total	Units	Units	Total	Units	Units
1978	18	34	36	42	219	377	553	483	22	47	71	52	219	465	861	559	1,363	919	444	166	125	41
JUL	19	37	48	42	189	381	533	460	21	43	76	50	217	419	803	565	1,373	928	445	178	139	39
AUG	18	37	48	39	204	424	602	501	22	42	73	44	233	448	808	535	1,371	918	453	181	145	36
SEP	16	37	53	42	162	375	657	525	21	27	78	46	206	432	879	537	1,381	913	468	180	146	34
OCT	16	28	48	36	196	355	670	503	17	43	62	37	186	526	852	543	1,371	900	471	167	134	33
NOV	13	16	39	36	198	327	612	527	14	19	47	39	238	447	786	603	1,310	848	462	170	136	34
DEC																						
1979	10	8	35	29	189	198	500	437	8	7	45	28	275	245	745	414	1,270	813	457	129	100	29
JAN	6	10	37	31	140	229	506	446	5	7	42	29	168	184	614	450	1,223	776	447	126	97	29
FEB	12	25	62	42	143	294	646	448	12	6	75	40	177	363	794	452	1,216	777	439	149	113	36
MAR	14	31	51	43	142	297	543	455	15	34	65	47	160	354	690	541	1,228	793	435	142	111	31
APR	18	37	60	48	181	328	616	493	18	50	72	51	170	412	746	507	1,259	831	438	156	113	43
MAY	18	37	60	48	181	328	616	493	19	24	79	51	181	377	890	487	1,283	837	446	166	130	36
JUN	18	34	59	45	199	332	636	472	19	36	68	43	182	351	794	464	1,300	852	448	151	116	35
JUL	15	27	51	45	161	281	585	501	18	36	68	43	183	384	786	453	1,301	860	441	159	123	36
AUG	15	30	50	47	147	310	664	533	20	39	74	40	147	429	762	583	1,283	850	433	181	125	56
SEP	19	29	54	39	217	337	704	517	13	39	67	46	147	429	762	583	1,280p	840p	440p	173p	133p	40p
OCT	14	28	59	38	151	271	673	447	21	35	75	40	188	306	812	456						
10 months	141	259	507	407					150	277	660	415								1,531	1,160	371
1979	151	323	487	458					166	387	718	470								1,527	1,212	315
1978	155	346	475	462					171	404	667	460								1,345	1,100	245
1977	124	269	336	335					138	348	485	334								1,115	896	219
1976																						

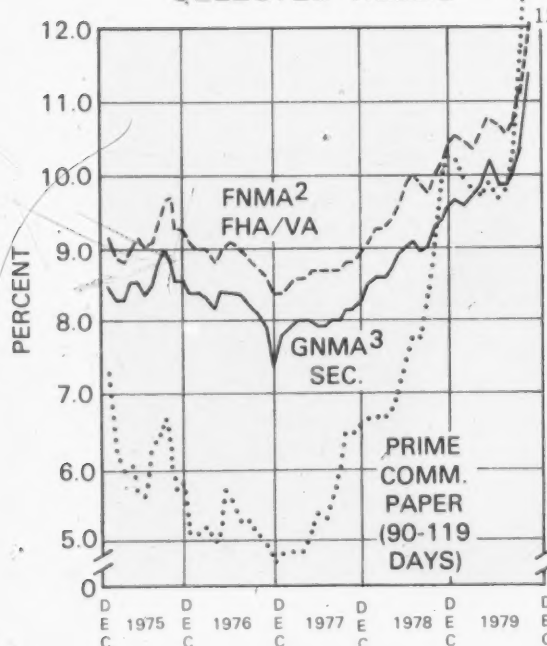
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



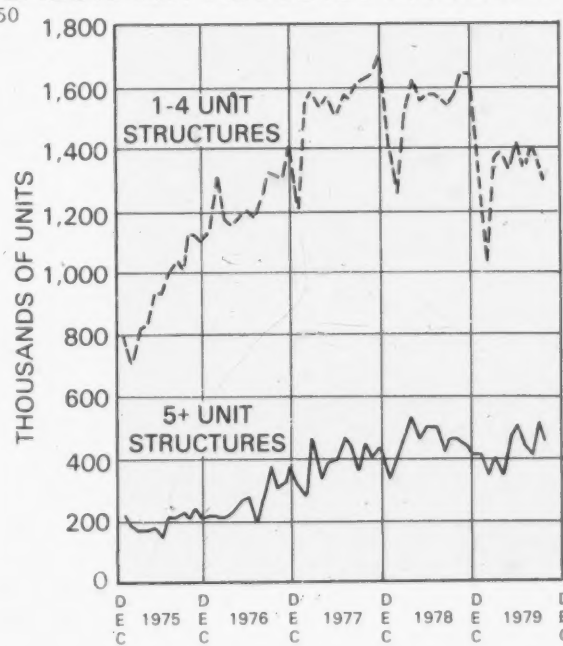
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED SEASONALLY ADJUSTED ANNUAL RATES



SELECTED YIELDS^{13.23}



HOUSING STARTS SEASONALLY ADJUSTED ANNUAL RATES



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS, SECURITIES FOR IMMEDIATE DELIVERY.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA — ECONOMICS DEPARTMENT

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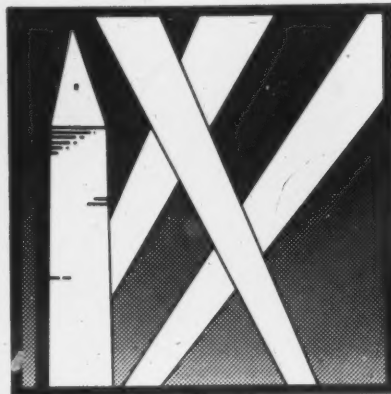
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Mortgage Banking:
An Update

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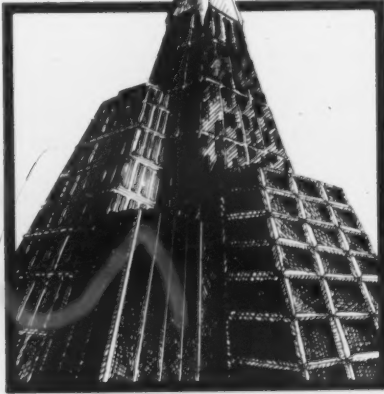
- The Private Mortgage Insurance Industry
- The 1979 Housing Bill

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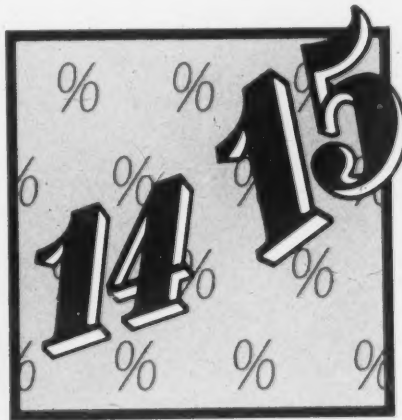
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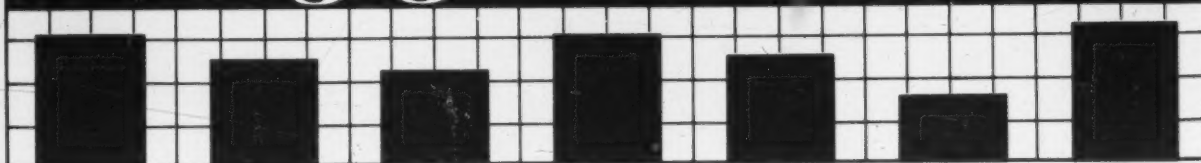


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Mortgage Market Trends



Prepared by MBA's Economics Department

This year appears to be headed downward in terms of the real level of activity for mortgage bankers, as well as for other lenders. Inflationary pressures, however, should keep the dollar volume of activity relatively strong.

Origination volume in one- to four-unit residential mortgages should be in the area of \$44 billion to \$46 billion, while income property originations range between \$8 billion and \$10 billion. Thus, 1980 long-term mortgage originations are not likely to be significantly different than those achieved in 1979. However, the expectation is that 1980's origination volume will approximate that of 1979. This will be totally based on inflation, as real levels of activity decline.

Loan servicing portfolios will also grow during 1980 as larger loans continue to be added to existing portfolios. The total servicing portfolio of mortgage bankers is expected to exceed \$210 billion by the end of 1980.

Mortgage bankers' profitability suffers in the same manner as that of other mortgage lenders during periods of inverted yield curves. Short-term interest rates are expected to equal or exceed the mortgage rate through the first half of 1980 before reversing. Therefore, the negative spread on carrying loan inventories during the first half of the year will cause serious deterioration in the profit margin for most firms, particularly those heavily engaged in residential lending. It is, however, likely that inventory levels will be lowest during that part of the year when the interest rate spread is most unfavorable.

As the level of general economic activity declines during the first quarter of 1980, consumers will reduce consumption and borrowing and credit demands will subside. Likewise, business demand for short-term credit is not only likely to decrease but could shift to the long-term debt market. As businesses that have recently been financing operations with short-term funds begin to see some softening in long-term interest rates, they are likely to refinance much of their short-term debt in longer maturities.

The increased demand for long-term credit on the part of the business sector will be accommodated by investors who have acquired short-term investment portfolios in recent months. As the rates begin to soften, investors will attempt to switch their portfolio from short- to long-term. This switching of maturities on the part of investors and borrowers alike will lead to a downward trend in interest rates that is marked by temporary disruptions, with short-term rates falling more rapidly than long rates. The yield curve should thus approach a flat shape during the second quarter and a "normal" pattern by the second half of the year.

Dr. Thomas R. Harter, Chief Economist

MORTGAGE MARKET TRENDS—FEBRUARY 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE (Units in thousands)													VALUE OF NEW CON- STRUCTION PUT IN PLACE (Dollars in millions)				HOUSE SALES (Units in thousands)			
Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate	EXISTING HOUSES ¹	NEW HOUSES					
	Actual			Seasonally Adjusted, Annual Rate			Actual			Seasonally Adjusted Annual Rate					Sold	Avail- able For Sale	Months Supply at Current Rate			
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1 Unit	2+ Units						Non- Res		
1978	146	109	37	1,563	1,145	418	191	151	40	2,004	1,568	436	114,679	63,273	13,806	37,600	395	72	421	5.8
AUG	141	99	42	1,731	1,217	514	181	135	46	2,024	1,544	480	115,051	63,063	13,742	38,246	329	68	419	6.2
SEP	148	107	41	1,719	1,260	459	192	145	47	2,054	1,571	483	115,529	63,460	13,366	38,703	335	70	414	5.9
OCT	129	91	38	1,724	1,245	479	158	122	36	2,107	1,652	455	118,608	64,884	14,024	39,700	303	53	422	8.0
NOV	104	71	33	1,664	1,285	379	120	89	31	2,074	1,658	416	120,739	66,243	14,251	40,245	236	51	421	8.3
DEC	81	56	25	1,324	959	365	88	64	24	1,679	1,263	416	112,999	61,407	13,208	38,384	245	53	411	7.8
JAN	84	57	27	1,321	878	443	84	64	20	1,381	1,029	352	115,191	62,308	14,663	38,220	263	58	399	5.3
FEB	141	103	38	1,531	1,103	428	153	120	33	1,786	1,382	404	119,211	61,376	14,967	42,868	336	73	416	5.7
MAR	139	106	33	1,437	1,082	355	161	131	30	1,745	1,393	352	118,621	59,868	16,108	42,645	336	72	417	5.7
APR	162	111	41	1,618	1,163	455	189	144	45	1,835	1,345	490	120,904	59,735	15,932	45,248	374	69	426	6.2
MAY	156	112	44	1,639	1,144	495	193	147	46	1,935	1,419	516	124,452	60,363	17,300	46,789	348	64	420	6.6
JUN	138	104	34	1,528	1,136	392	164	130	34	1,791	1,360	431	125,507	60,554	17,196	47,757	347	66	421	6.3
JUL	152	111	41	1,654	1,181	473	172	133	39	1,806	1,400	406	125,398	60,522	17,775	47,101	381	69	419	6.1
AUG	140	90	50	1,775	1,166	609	164	117	47	1,921	1,376	545	125,801	60,352	18,726	46,723	317	62	414	6.7
SEP	141	96	45	1,542	1,064	478	169	122	47	1,762	1,298	464	127,858	60,158	18,167	49,533	334	55	416	7.6
OCT	98	64	34	1,263	850	413	119	82	37	1,522	1,108	414	126,149p	58,690p	18,337p	49,122p	261	408	411p	10.2p
NOV																				
11 months	1,432	1,020	412				1,656	1,254	402								3,542	681		
1979	1,553	1,131	422				1,901	1,471	430								3,669	769		
1978	1,571	1,170	401				1,859	1,478	381								3,053	714		
1977	1,177	911	266				1,431	1,171	260								2,572	551		

RESIDENTIAL STRUCTURES, BY REGION (units in thousands)													CONSTRUCTION STATUS (units in thousands)									
Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS		
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate				Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West						
1978	19	37	48	42	189	381	533	460	21	43	76	50	217	419	803	565	1,373	928	445	178	139	39
AUG	18	37	48	39	204	424	602	501	22	42	73	44	233	448	808	535	1,371	918	453	181	145	36
SEP	16	37	53	42	162	375	657	525	21	27	78	46	206	432	879	537	1,381	913	468	180	146	34
OCT	16	28	48	36	196	355	670	503	17	43	62	37	186	526	852	543	1,371	900	471	167	134	33
NOV	13	16	39	36	198	327	612	527	14	19	47	39	238	447	786	603	1,310	848	462	170	136	34
DEC																						
1979	10	8	35	29	189	198	500	437	8	7	45	28	275	245	745	414	1,270	813	457	129	100	29
JAN	6	10	37	31	140	229	506	446	6	7	42	29	168	184	614	450	1,223	776	447	126	97	29
FEB	12	25	62	42	143	294	646	448	12	6	75	40	177	363	794	452	1,216	777	439	149	113	36
MAR	14	31	51	43	142	297	543	455	15	34	65	47	160	354	690	541	1,228	793	435	142	111	31
APR	18	37	60	48	181	328	616	493	18	50	72	51	170	412	746	507	1,259	831	438	156	113	43
MAY	18	34	59	45	199	332	636	472	19	24	79	51	181	377	890	487	1,283	837	446	166	130	36
JUN	15	27	51	45	161	281	585	501	18	36	68	43	182	351	794	464	1,300	852	448	151	116	35
JUL	15	30	50	47	147	310	664	533	20	39	74	40	183	384	786	453	1,301	860	441	159	123	36
AUG	19	29	54	39	217	337	704	517	13	39	67	46	147	429	762	583	1,283	850	433	181	125	36
SEP	14	28	59	38	151	271	673	447	21	35	73	40	188	406	812	545	1,274	837	437	174	135	39
OCT	13	16	42	27	152	191	557	363	19	20	53	27	170	248	714	390	1,231p	799p	432p	165p	121p	44p
NOV																						
11 months	154	275	569	434					169	297	613	442								1,698	1,284	414
1979	167	351	535	494					183	430	780	507								1,694	1,346	348
1978	169	380	519	506					190	442	726	498								1,345	1,100	245
1976	138	297	368	374					156	379	529	367								1,115	896	219

INTEREST RATES AND YIELDS																			
Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ⁴	CONSTRUCTION LOANS ⁵ ALL TYPES	FMS Auction Yields on 4 mo Commitments ⁶ FHA/VA Conv	GNMA Current Securities Yield ⁷	SELECTED SECURITIES						SPREADS (Basis Points)		
	FHA Option Surveys			FHLBB Surveys							Aaa Utility New Issue	U.S. Gov't ⁸		Prime Commercial Paper 90-119 Days	FHA New minus Aaa Utility	GNMA minus 10-yr Gov't			
	FHA New ³	Conventional	Existing	New	Existing	U.S. Gov't ⁸													
						10-yr						26 wk							
1978																			
AUG	9.78	9.80	9.80	9.70	9.77	9.750-10.250	10.43	9.801	10.101	8.98	8.82	8.41	7.363	7.83	96	57			
SEP	9.78	9.80	9.85	9.73	9.84	9.720-10.125		9.782	10.015	9.09	8.86	8.42	7.948	8.39	92	67			
OCT	9.93	9.95	9.95	9.83	9.90	9.750-10.125		10.053	10.198	9.33	9.17	8.64	8.493	8.98	76	69			
NOV	9.99	10.10	10.15	9.86	9.97	9.750-10.125	11.55	10.293	10.560	9.43	9.27	8.81	9.204	10.14	72	62			
DEC	10.16	10.30	10.30	10.02	10.08	9.875-10.125		10.508	10.825	9.61	9.28	9.01	9.397	10.37	88	60			
1979																			
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.54	9.10	9.501	10.25	63	60			
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79	10.506	11.040	9.68	9.53	9.10	9.349	9.95	64	60			
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.90	57	61			
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68			
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79			
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90			
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86			
AUG	10.58	11.10	11.15	11.07	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98			
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.125	11.63	154	107			
OCT	n.a.	12.15	12.20	11.21	11.28	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.339	13.23	n.a.	100			
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	n.a.	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93			

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mig. Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁸	Life Cos.
1978																				
JUN	20,015	3,820	7,541	7,552	1,102	15,843	3,320	7,096	5,335	92	885	140	261	341	143	3,287	360	184	1,876	867
JUL	17,248	3,690	5,888	6,752	918	13,542	3,200	5,570	4,717	55	832	180	186	302	164	2,874	310	132	1,733	699
AUG	19,794	4,120	6,948	7,710	1,016	15,640	3,570	6,601	5,414	55	855	150	229	351	125	3,299	400	118	1,945	836
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	966	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,237	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149	2,808	525	127	1,282	874
SEP	18,188	5,532	5,507	5,706	1,443	14,088	4,681	5,191	3,978	238	847	331	180	265	171	3,153	520	136	1,463	1,034
OCT	n.a.	4,987p	6,111p	n.a.	n.a.	n.a.	4,400p	5,807p	n.a.	n.a.	n.a.	79p	179p	n.a.	n.a.	n.a.	508p	125p	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mig. Bankers	S&Ls	Banks ⁸	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁸	Life Cos.
1978										
JUN	75,381	16,870	22,927	13,171	22,413	21,125	4,960	9,198	4,215	2,752
JUL	77,100	17,920	22,393	13,649	23,138	18,482	4,780	7,925	3,672	2,105
AUG	74,650	17,060	22,047	12,432	23,111	17,618	3,810	8,924	3,251	1,633
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683
1979										
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382
APR	76,264	18,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260
MAY	80,544	18,555	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164
JUN	79,826	18,431	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,203	7,730	2,489	2,676
OCT	n.a.	15,788p	20,949p	n.a.	n.a.	n.a.	4,175	n.a.	n.a.	n.a.

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

APPLICATIONS RECEIVED UNITS				INSURED							
				Total		FHA(203)		VA		Private	
Total	FHA/VA	Private		Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
162	85	77		117	4,441	20	635	28	1,109	69	2,697
155	89	66		114	4,379	22	691	29	1,179	63	2,509
169	96	73		129	4,935	23	761	33	1,319	73	2,855
138	73	65		102	3,949	18	584	22	881	62	2,484
188	122	66		131	4,931	40	1,279	28	1,179	63	2,473
152	94	58		121	4,002	17	574	27	1,116	77	2,312
121	72	49		93	3,805	11	388	28	1,177	54	2,240
118	79	39		109	4,393	29	963	33	1,419	47	2,011
114	74	40		93	3,861	27	936	31	1,367	35	1,558
157	102	55		98	4,023	25	855	32	1,415	41	1,753
169	106	63		90	3,741	19	665	24	1,075	47	2,001
185	116	69		102	4,246	23	806	24	1,082	55	2,358
166	103	63		103	4,338	24	846	24	1,096	55	2,396
170	112	58		117	4,996	29	1,058	31	1,423	57	2,515
177	118	59		116	5,042	25	912	35	1,695	56	2,435
150	100	50		104	4,646	20	744	39	1,910	45	1,992
153	98	57		104	4,580	29	1,092	22	1,100	53	2,388

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

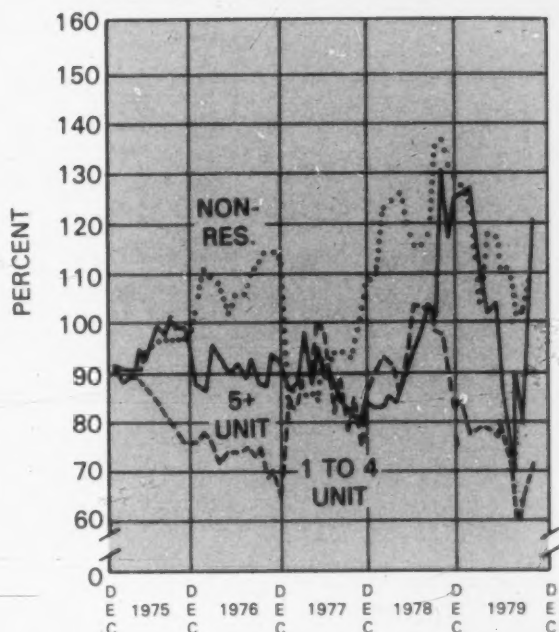
Year and Month	FNMA			FHLMC			GNMA	
	4-Month Commitments			12 Month Convert Standby			Pass-Through Securities	
	FHA/VA Bid Accept	Conventional Bid Accept		Comm	Purc	Sold	Applications	Issued
1978								
AUG	499	277	225	128	126	838	742	299
SEP	718	336	485	284	283	678	670	402
OCT	1,965	832	1,157	496	502	514	791	370
NOV	788	322	861	387	507	582	765	581
DEC	627	320	417	221	319	290	598	340
1979								
JAN	305	155	114	58	132	327	498	321
FEB	211	161	63	45	89	295	401	291
MAR	508	284	145	114	71	427	350	116
APR	1,323	638	662	364	517	492	358	363
MAY	426	185	459	214	503	601	560	572
JUN	220	100	358	195	277	462	447	182
JUL	133	70	94	70	160	517	518	320
AUG	162	83	246	184	184	581	636	354
SEP	1,421	600	527	326	343	437	537	347
OCT	2,943	1,130	1,050	431	528	504	552	531
NOV	558	265	366	190	0	n.a.	n.a.	n.a.

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

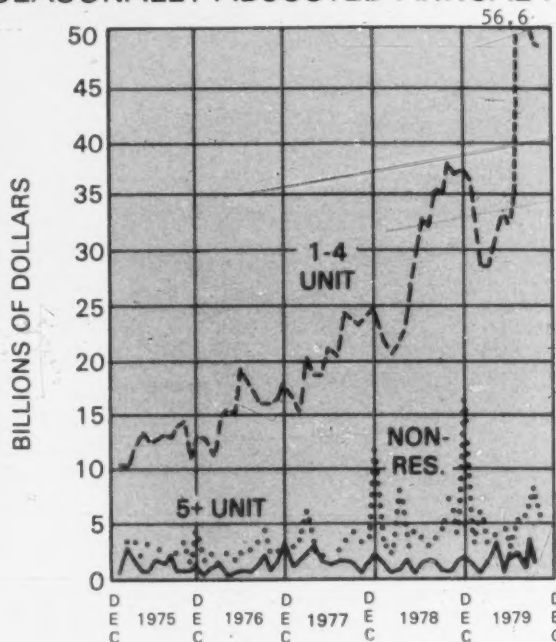
(Dollars in Millions)

DISBURSEMENTS DURING MONTH					Land Loans	OUTSTANDING COMMITMENTS TO BORROWERS			
Construction				Total		1-4 Units	5+ Units	Non- res.	
Total	1-4 Units	5+ Units	Non- res.						
530	240	150	140	40	4,370	1,570	1,110	1,690	
510	250	100	160	40	4,290	1,510	1,140	1,640	
600	260	160	180	60	4,320	1,530	1,180	1,610	
570	260	120	190	40	4,150	1,520	1,110	1,520	
620	270	180	170	40	4,190	1,550	1,130	1,510	
550	250	100	200	50	4,400	1,700	1,140	1,560	
420	230	80	110	30	4,130	1,640	960	1,530	
470	280	80	110	40	4,620	1,700	1,150	1,770	
570	300	120	150	50	4,250	1,610	1,230	1,410	
560	330	100	130	60	3,910	1,820	740	1,350	
700	450	110	140	50	4,460	2,060	1,120	1,280	
594	312	121	161	59	4,010	1,870	870	1,270	
734	339	151	244	81	4,553	2,072	1,069	1,412	
723	312	86	325	152	4,897	2,101	679	2,117	
802	312	87	403	45	4,877	1,960	1,224	1,693	
n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	

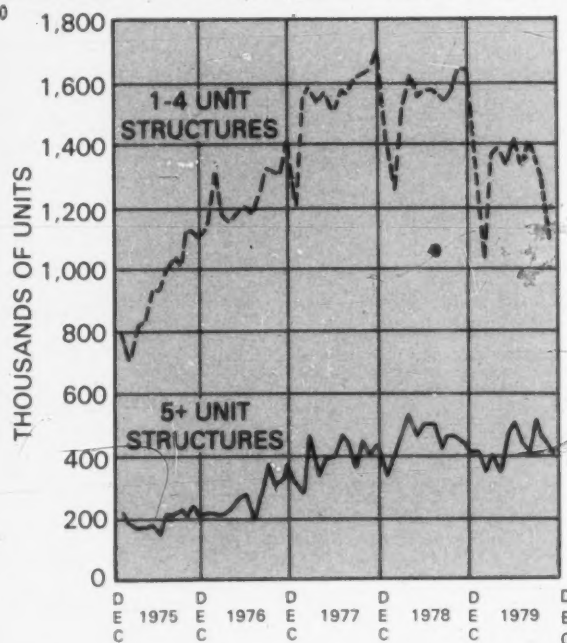
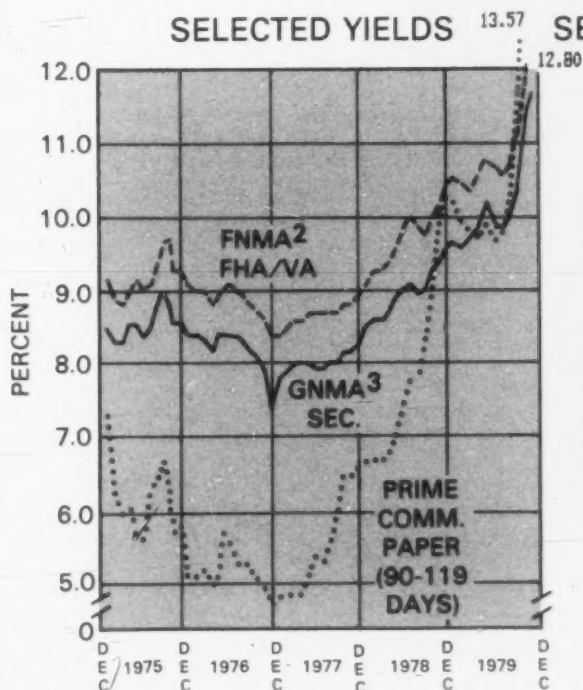
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED SEASONALLY ADJUSTED ANNUAL RATES



HOUSING STARTS SEASONALLY ADJUSTED ANNUAL RATES



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA — ECONOMICS DEPARTMENT

MORTGAGE BANKER

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MARCH 1980

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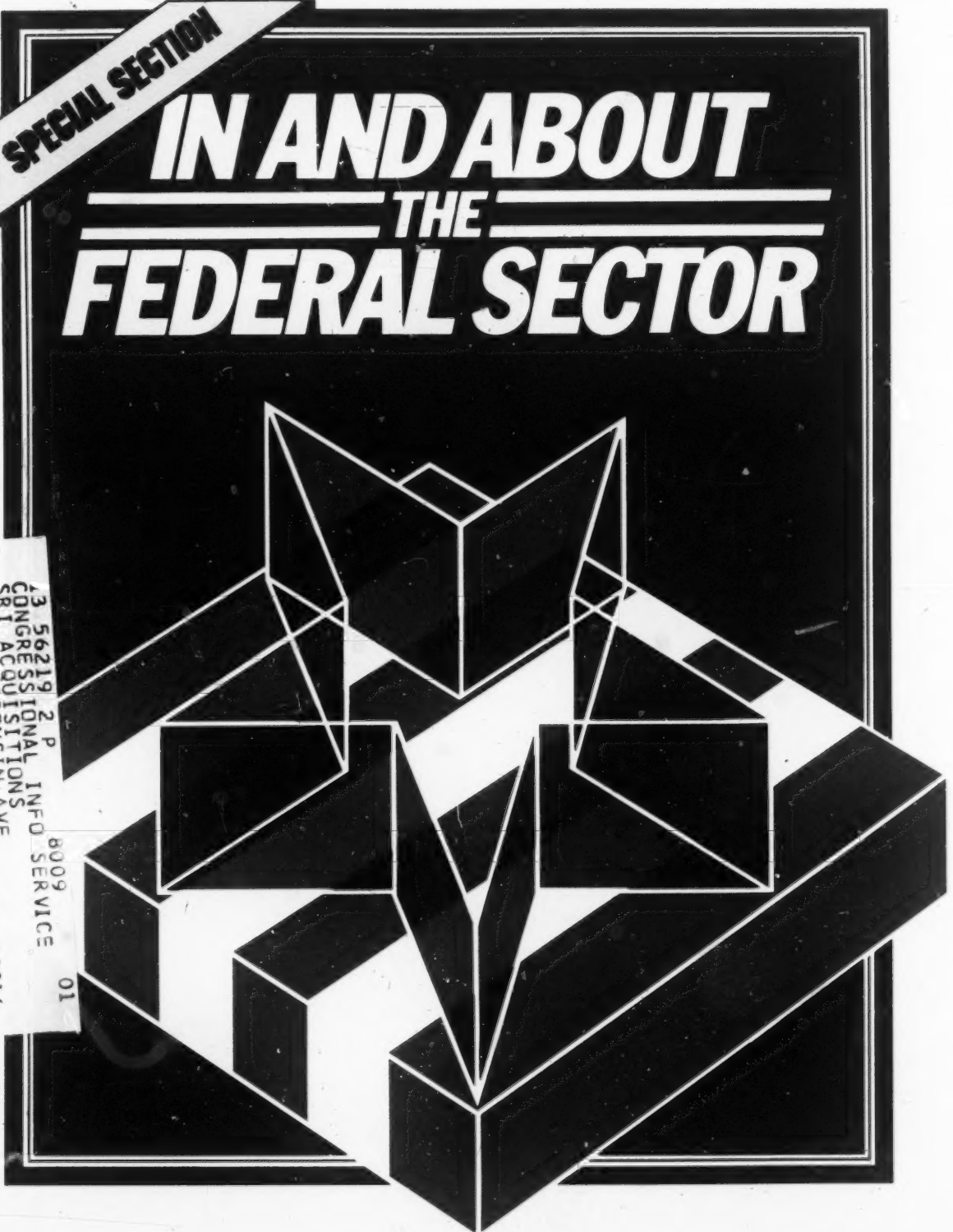
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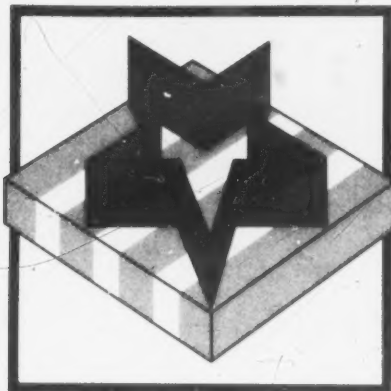
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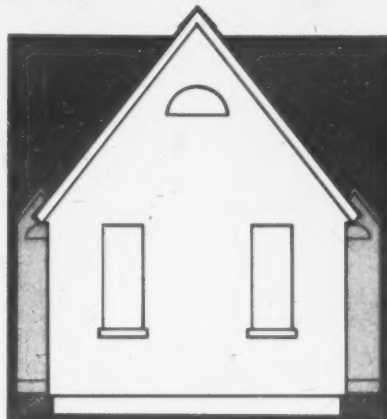


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Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
(202) 785-8333



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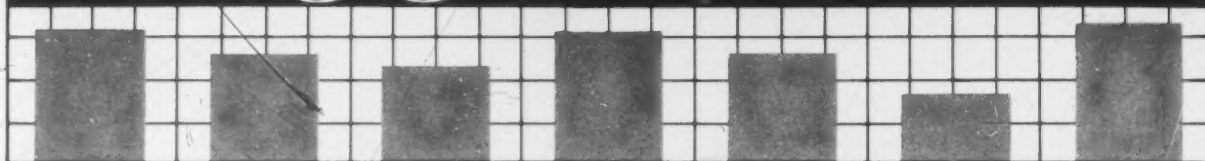
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Mortgage Market Trends



Prepared by MBA's Economics Department

February 15, 1980

While many Americans have yet to face the realities of recession in 1980, the home-building industry is already reeling from the impact of the high interest rates and declining real personal income that resulted from unrestrained double-digit inflation.

While housing starts have continued in excess of 1.5 million units in recent months, such a level of production is not likely to continue as sales volumes fall. Forward commitments to builders have allowed starts to remain at relatively high levels. We should, however, expect a significant decline in new housing construction to begin this month, and the low point for residential construction is most likely to occur in March and April. For 1980 as a whole, the level of housing starts is expected to be around 1.5 million units.

While the 25 percent drop expected in the level of housing construction between 1980 and peak-year 1979 is alarming, it becomes less so when compared to the 1974-75 housing bust, which saw construction activity fall between 50-60 percent.

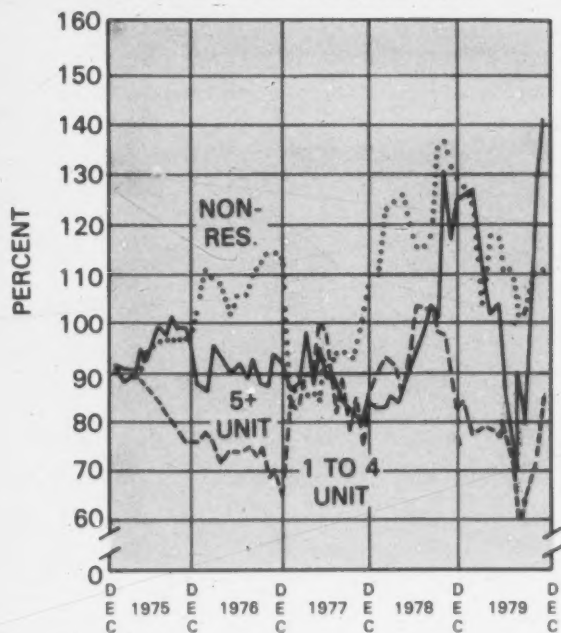
Reduced levels of production in housing, as well as in other areas, will cause a reduction in supply at the same time demand is growing. The coming of household-forming age of the World War II baby boom is creating tremendous demands on all sectors of the economy. If the availability of good housing, for example, is reduced through policy decisions while the demand is increasing, the net result will be a significant increase in the price of that housing. As housing becomes scarce with a reduction in starts and income grows with increased government spending aimed at stimulating the sagging economy, people will have to bid up the prices on homes that are available for sale. While 1980 itself is not likely to feel the inflationary pressures being evolved, future periods will.

Following the general economic trend, as well as the housing market, nonresidential activity is also likely to slow during 1980. Retail space construction will slow during 1980 as residential activity falls, and the expected decline in retail sales will also cause some curtailment in the construction of new retail facilities. Similarly, warehouse facilities are likely to see reduced activity as inventory levels stabilize.

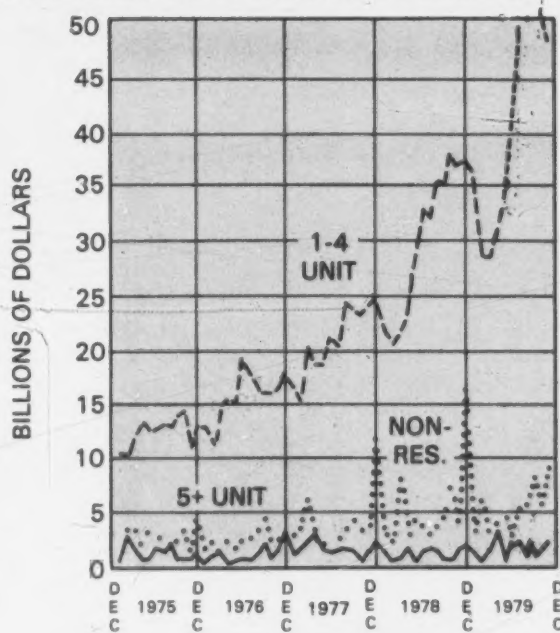
Industrial real estate activity will also slacken, although not as extensively as in previous recessions. Inventory levels have remained in line with sales volumes; hence the inventory excesses of the previous recession do not exist today, and capacity utilization should not fall to as low a level as would otherwise be the case. With higher capacity utilization, industrial expansion will not slow for as long as it would with inventory excesses, as was the case in the 1974-75 recession.

Frances E. Wrocklage, Senior Economist

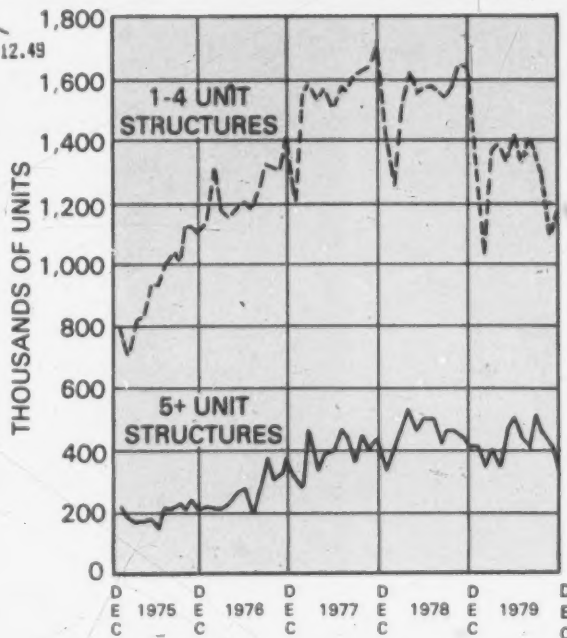
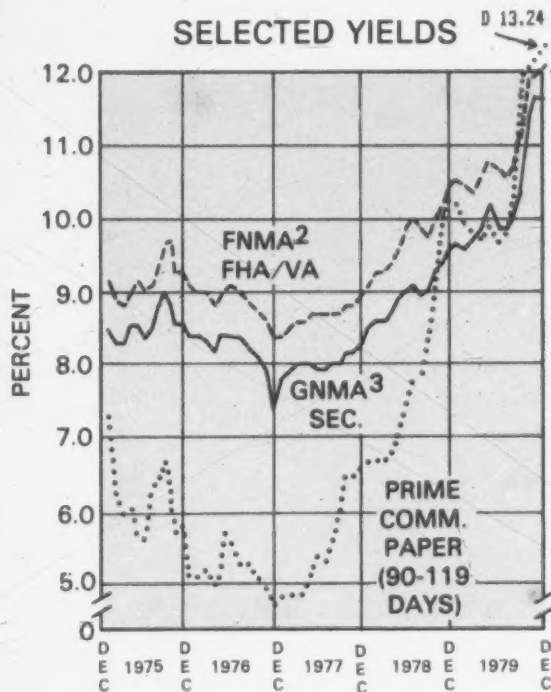
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED SEASONALLY ADJUSTED ANNUAL RATES



SELECTED YIELDS HOUSING STARTS SEASONALLY ADJUSTED ANNUAL RATES



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA — ECONOMICS DEPARTMENT

MORTGAGE MARKET TRENDS—MARCH 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE (Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in millions)

HOUSE SALES (Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate								Available Months Supply at Current Rate		
	1-4 Units		5+ Units	1-4 Units		5+ Units	1-4 Units		5+ Units	1-4 Units		5+ Units	1 Unit		2+ Units	Non-Res.		Sold	For Sale	
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Unit	Units	Res.				
1978	141	99	42	1,731	1,217	514	181	135	46	2,024	1,544	480	115,051	63,063	13,742	38,246	329	68	419	6.2
SEP	148	107	41	1,719	1,260	459	192	145	47	2,054	1,571	483	115,529	63,460	13,366	38,703	335	70	414	5.9
OCT	129	91	38	1,724	1,245	479	158	122	36	2,107	1,652	455	118,608	64,884	14,024	39,700	303	53	422	8.0
NOV	104	71	33	1,664	1,285	379	120	89	31	2,074	1,658	416	120,739	66,243	14,251	40,245	236	51	421	8.3
DEC																				
1979	81	56	25	1,324	959	365	88	64	24	1,679	1,263	416	112,999	61,407	13,208	38,384	245	53	411	7.8
JAN	84	57	27	1,321	878	443	84	64	20	1,381	1,029	352	115,191	62,308	14,663	38,220	263	58	399	5.3
FEB	141	103	38	1,531	1,103	428	153	120	33	1,786	1,382	404	119,211	61,376	14,967	42,868	336	73	416	5.7
MAR	139	106	33	1,437	1,082	355	161	131	30	1,745	1,393	352	118,621	59,868	16,108	42,645	336	72	417	5.7
APR	162	111	41	1,618	1,163	455	189	144	45	1,835	1,345	490	120,904	59,735	15,932	45,248	374	69	426	6.2
MAY	156	112	44	1,639	1,144	495	193	147	46	1,935	1,419	516	124,452	60,363	17,300	46,789	348	64	420	6.6
JUN	138	104	34	1,528	1,136	392	164	130	34	1,791	1,360	431	125,507	60,554	17,196	47,757	347	66	421	6.3
JUL	152	111	41	1,654	1,181	473	172	133	39	1,806	1,400	406	125,398	60,522	17,775	47,101	381	69	419	6.1
AUG	140	90	50	1,775	1,166	609	164	117	47	1,921	1,376	545	125,801	60,352	18,726	46,723	317	62	414	6.7
SEP	141	96	45	1,542	1,064	478	169	122	47	1,762	1,298	464	127,858	60,158	18,167	49,533	334	55	416	7.6
OCT	98	64	34	1,263	850	413	119	82	37	1,522	1,108	414	127,546	58,799	19,081	49,666	261	39	412	10.5
NOV	78p	50p	28p	1,204p	872p	332p	89p	63p	26p	1,527p	1,177p	350p	130,053p	58,019p	20,421p	51,613p	200	34p	407p	12.0p
DEC																				
12 months	1,510p 1,070p 440p						1,745p 1,317p 428p										3,742	714p		
1979	1,800 1,313 487						2,020 1,558 462										3,905	817		
1978	1,689 1,246 443						1,988 1,574 414										3,571	820		
1977	1,280 980 300						1,538 1,250 288										3,001	647		
1976																				

RESIDENTIAL STRUCTURES, BY REGION (units in thousands)

CONSTRUCTION STATUS (units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS		
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate									
	North	North			North	North			North	North			North	North			Total	1-4	5+	Total	1-4	5+
	East	Central	South	West	East	Central	South	West	East	Central	South	West	East	Central	South	West	Units	Units	Units	Units	Units	Units
1978	18	37	48	39	204	424	602	501	22	42	73	44	233	848	808	535	1,371	918	453	181	145	36
SEP	16	37	53	42	162	375	657	525	21	27	78	46	206	432	879	537	1,381	913	468	180	146	34
OCT	16	28	48	36	196	355	670	503	17	43	62	37	186	526	852	543	1,371	900	471	167	134	33
NOV	13	16	39	36	198	327	612	527	14	19	47	39	238	447	786	603	1,310	848	462	170	136	34
DEC																						
1979	10	8	35	29	189	198	500	437	8	7	45	28	275	245	745	414	1,270	813	457	129	100	29
JAN	6	10	37	31	140	229	506	446	6	7	42	29	168	184	614	450	1,223	776	447	126	97	29
FEB	12	25	62	42	143	294	646	448	12	6	75	40	177	363	794	452	1,216	777	439	149	113	36
MAR	14	31	51	43	142	297	543	455	15	34	65	47	160	354	690	541	1,228	793	435	142	111	31
APR	18	37	60	48	181	328	616	493	18	50	72	51	170	412	746	507	1,259	831	438	156	113	43
MAY	18	34	59	45	199	332	636	472	19	24	79	51	181	377	890	487	1,283	837	446	166	130	36
JUN	15	27	51	45	161	281	585	501	18	36	68	43	182	351	794	464	1,300	852	448	151	116	35
JUL	15	30	50	47	147	310	664	533	20	39	74	40	183	384	786	453	1,301	860	441	159	123	36
AUG	19	29	54	39	217	337	704	517	13	39	67	46	147	429	762	583	1,283	850	433	181	125	56
SEP	14	28	49	38	151	271	673	447	21	35	73	40	188	306	812	456	1,274	837	437	174	135	39
OCT	13	16	42	27	152	191	557	363	19	20	53	27	170	248	714	380	1,226	744	432	165	121	44
NOV	10p	12p	32p	24p	144p	224p	490p	346p	10p	14p	40p	27p	151p	302p	669p	405p	1,148p	723p	425p	172p	137p	35p
DEC																						
10 months	164p	287p	601p	458p					179p	311p	643p	469p								1,870p	1,421p	449p
1979	194	388	668	550					200	451	824	545								1,868	1,486	382
1978	182	403	562	546					201	464	783	538								1,504	1,200	304
1977	150	317	400	412					170	401	569	400								1,245	1,004	241

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS ⁴	CON- STRUCTION LOANS, ⁵ ALL TYPES	FNMA		GNMA Current Securities Yield ⁷	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHIA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo Commitments ⁶ FHIA/VA Cons	Aaa Utility New Issue		U.S. Gov't 10-yr 26-wk	Prime Commercial Paper 90-119 Days	FHIA New Minus Aaa Utility	GNMA minus 10-yr Gov't		
	FHIA New ³	Conventional		Conventional												
		New	Existing	New	Existing											
1978																
SEP	9.78	9.80	9.85	9.73	9.84	9.720-10.125		9.782	10.015	9.09	8.86	8.42	7.948	8.39	92	67
OCT	9.93	9.95	9.95	9.83	9.90	9.750-10.125		10.053	10.198	9.33	9.17	8.64	8.493	8.98	76	69
NOV	9.99	10.10	10.15	9.86	9.97	9.750-10.125	11.55	10.293	10.560	9.43	9.27	8.81	9.204	10.14	72	62
DEC	10.16	10.30	10.30	10.02	10.08	9.875-10.125		10.508	10.825	9.61	9.28	9.01	9.397	10.37	88	60
1979																
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.34	9.10	9.501	10.25	63	60
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79	10.506	11.040	9.68	9.33	9.10	9.349	9.95	64	60
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.90	57	61
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	n.s.a.	107
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.660	13.23	154	100
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mig. Bankers	S&Ls	Banks ⁶	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁶	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁶	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁶	Life Cos.
1978																				
AUG	19,794	4,120	6,948	7,710	1,016	15,640	3,570	6,601	5,414	55	855	150	229	351	125	3,299	400	118	1,945	836
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,237	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149	2,808	525	127	1,282	874
SEP	18,188	5,532	5,507	5,706	1,443	14,008	4,681	5,191	3,978	238	847	131	180	265	171	3,153	520	146	1,465	1,014
OCT	20,011	5,554	6,223	6,729	1,505	16,009	5,026	5,916	4,847	220	583	56	184	192	151	3,419	472	123	1,680	1,114
NOV	16,947	4,499	4,968	6,049	1,431	12,718	3,633	4,724	4,111	250	651	175	130	224	122	3,578	691	114	1,714	1,059

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mig. Bankers	S&Ls	Banks ⁶	Life Cos.	Total	Mig. Bankers	S&Ls	Banks ⁶	Life Cos.
1978										
JUL	77,100	17,920	22,393	13,649	23,138	18,482	4,780	7,925	3,672	2,105
AUG	74,650	17,060	22,047	12,432	23,111	17,618	3,810	8,924	3,251	1,633
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683
1979										
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,499
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,805	2,375
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,203	7,740	2,489	2,676
OCT	80,082	16,335	20,930	11,575	31,242	18,010	4,858	7,992	2,889	2,271
NOV	75,665	15,682	18,029	11,408	30,546	12,292	3,458	4,741	2,398	1,695

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS					INSURED							
	Total	FHA/VA	Private			Total	FHA(203)	VA	Private				
	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units	Units
1978													
JUL	114	4,379	22	691	29	1,179	63	2,509					
AUG	129	4,935	23	761	33	1,319	73	2,855					
SEP	102	3,949	18	584	22	881	62	2,484					
OCT	131	4,931	40	1,279	28	1,179	63	2,473					
NOV	121	4,002	17	574	27	1,116	77	2,312					
DEC	93	3,805	11	388	28	1,177	54	2,240					
1979													
JAN	109	4,393	29	963	33	1,419	47	2,011					
FEB	93	3,861	27	936	31	1,367	35	1,558					
MAR	98	4,023	25	855	32	1,415	41	1,753					
APR	90	3,741	19	665	24	1,075	47	2,001					
MAY	102	4,246	23	806	24	1,082	55	2,358					
JUN	103	4,338	24	846	24	1,096	55	2,396					
JUL	117	4,996	29	1,058	31	1,423	57	2,515					
AUG	116	5,042	25	912	35	1,695	56	2,435					
SEP	104	4,646	28	744	39	1,910	45	1,992					
OCT	104	4,580	29	1,092	22	1,103	53	2,388					
NOV	102	4,493	27	1,004	29	1,391	46	2,098					

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA			FHLMC			GNMA	
	4-Month Commitments			12 Month Convert Standby			Pass-Through Securities	
	FHA/VA Bid	Conventional Bid	Accept	Comm	Purc	Sold	Applications	Issued
1978								
SEP	718	336	485	284	283	678	670	402
OCT	1,965	832	1,157	496	502	514	791	370
NOV	788	322	861	387	507	582	765	581
DEC	627	320	417	221	319	290	598	340
1979								
JAN	305	155	114	58	132	327	498	321
FEB	211	161	63	45	89	295	401	291
MAR	508	284	145	114	71	427	350	116
APR	1,323	638	662	364	517	492	358	363
MAY	426	185	459	214	503	601	560	572
JUN	220	100	358	195	277	462	447	182
JUL	133	70	94	70	160	517	518	320
AUG	162	83	246	184	184	581	636	354
SEP	1,421	600	527	326	343	437	537	347
OCT	2,943	1,130	1,050	431	828	504	552	531
NOV	558	265	366	190	0	n.a.	n.a.	n.a.
DEC	649	249	413	152	0	n.a.	n.a.	n.a.

CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH				OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans			
	Total	1-4 Units	5+ Units	Non-res.	Total	1-4 Units	5+ Units	Non-res.
1978								
SEP	510	250	100	160	40	4,290	1,510	1,140
OCT	600	260	160	180	60	4,320	1,530	1,180
NOV	570	260	120	190	40	4,150	1,520	1,110
DEC	620	270	180	170	40	4,190	1,550	1,130
1979								
JAN	550	250	100	200	50	4,400	1,700	1,140
FEB	420	230	80	110	30	4,130	1,640	960
MAR	470	280	80	110	40	4,620	1,700	1,150
APR	570	300	120	150	50	4,250	1,670	1,230
MAY	560	330	100	130	60	3,910	1,820	740
JUN	700	450	110	140	50	4,460	2,060	1,120
JUL	594	312	121	161	59	4,010	1,870	870
AUG	734	339	151	244	81	4,553	2,072	1,069
SEP	723	312	86	325	152	4,897	2,101	679
OCT	784	307	106	371	45	4,387	1,636	1,224
NOV	687p	231p	161p	295p	45	4,557p	1,703p	1,027p
DEC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Mortgage Banker

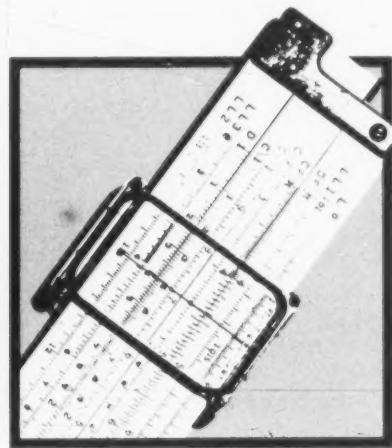
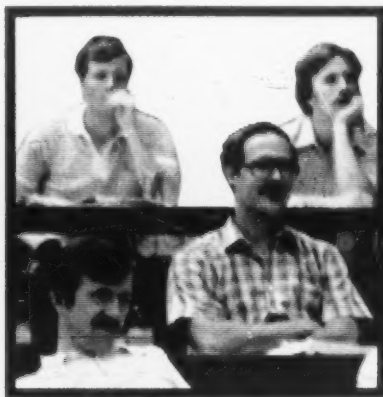
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Mortgage Banking in the 1980's

Mortgage Banker

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Business and Editorial Offices
1125 15th Street, N.W.
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(202) 785-8333



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MORTGAGE BANKING IN THE 1980'S

Thomas R. Harter and Schuyler Schell

The new decade of the 1980's holds great promise for the mortgage lending industry. The baby boom behemoth will assemble en masse to bid in the housing market. The swelling labor force will attain a relatively high degree of maturity, skills, and productivity, requiring more and more office, retail, and manufacturing space. And the eventual return of rising real in-

comes and consumer optimism will have an extremely salutary effect on the economy in general and mortgage lending in particular. Lurking within this silvered cloud, however, may well be a very dark lining composed of high inflation, excessive regulation, and faltering output, threatening to dampen the optimism that rightfully belongs to the mortgage lending industry.

Dr. Harter is MBA chief economist and Mr. Schell, assistant economist.

80's DEMOGRAPHICS

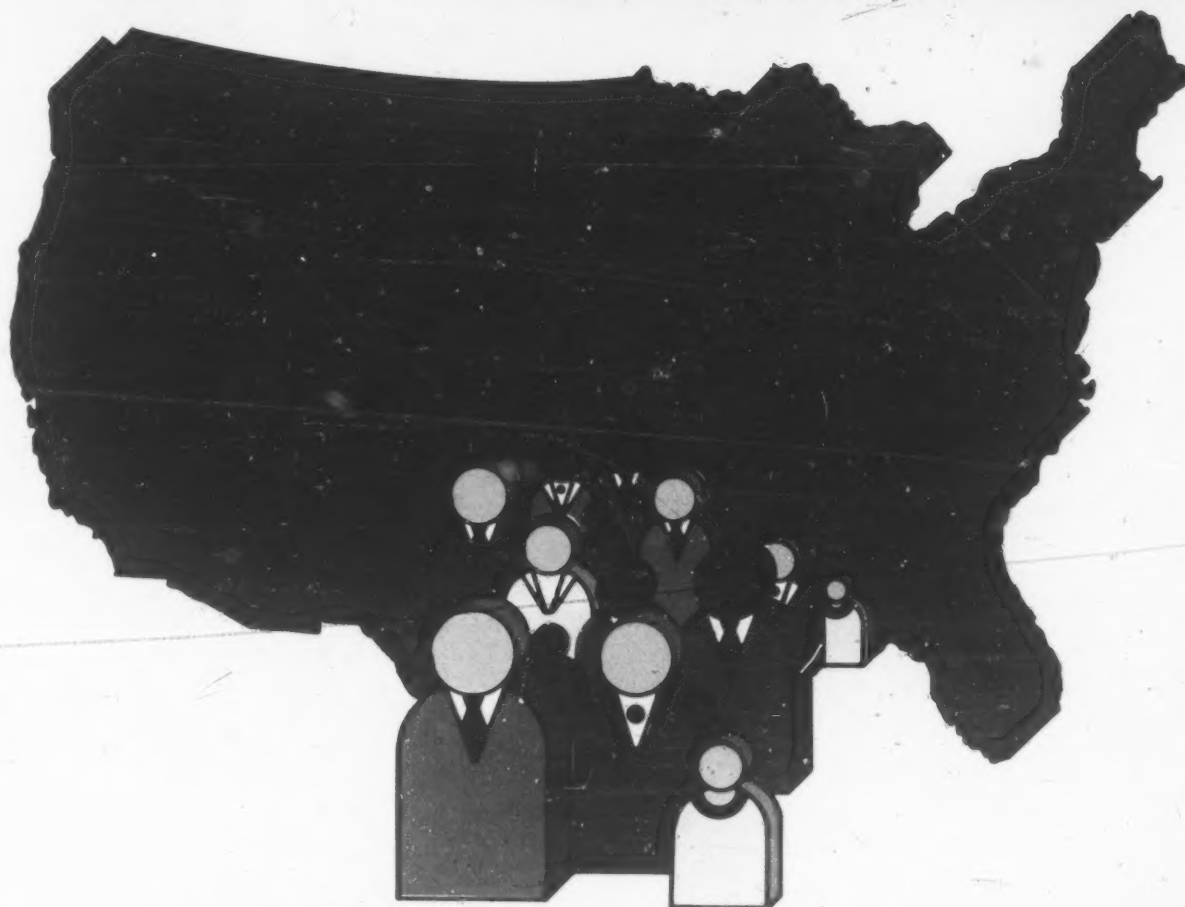
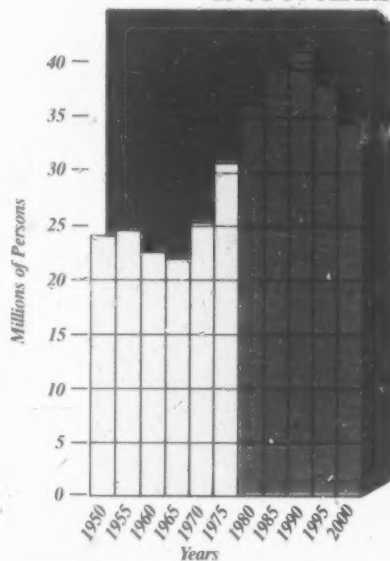


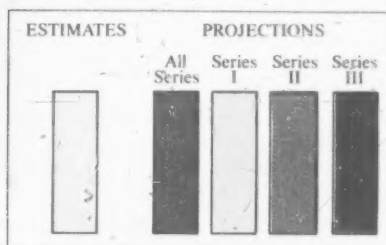
**FIGURE 1
POPULATION
TRENDS BY AGE GROUP:
25 TO 34 YEARS**



SOURCE: U.S. Bureau of the Census, July 1977

Demographic factors, such as relative increases in certain population age groups and changes in household composition and size, provide much of the underlying strength behind today's, as well as tomorrow's, swelling housing demand. Population, in general, will increase by over 21 million people in the coming decade. This is like adding on two new states with the population of Texas and Florida, or like adding another California. The population age group of critical interest spans the ages of 24 to 35 years, the prime house-buying population responsible for the purchase of ap-

proximately 50 percent of the single-family houses sold in recent years. It follows that substantial changes in this population group will have a marked effect on house sales and construction activity. This has been the case during the past decade with the coming of house-buying age of the WWII baby boom population, which swelled the ranks of prime house buyers by 43 percent between 1965 and 1976. This population group will swell by another nine million persons by 1990, representing a 28-percent increase from the 1976 level, increasing three times faster than the overall population growth (see Figure 1).



Key for Figures 1, 2, 4, 5, 6, 7

Housing demand

Recent trends in household formation have contributed substantially to the increased demand for housing. The average household size, recorded at 3.33 in 1960, stood at 2.89 in 1976, after a decline of 5.7 percent in the 60's and of 8 percent between 1970 and 1976. These decreases can be attributed to a combination of fac-

tors: increased numbers of Americans living alone, lower birth rates, delayed marriages, and higher divorce rates. The drop in household size, coupled with steady population growth, resulted in a 20.1 percent jump in the number of households in the 60's and a 14.7 percent increase from 1970 to 1976.

Household size throughout the 80's will continue the decline started in the mid-60's, with the average number of persons per household expected to drop to 2.73 persons in 1980, 2.60 in 1984, and to finish the decade at under 2.50. The continued growth in the prime household-forming age, combined with the increase in households with a householder 65 years old and older, promises further growth in household formation (see Figure 2). Today's tendency, and one likely to continue throughout the 80's, is for more elderly persons to maintain their own homes for a longer period than in the past, slowing the rate of household dissolution.

The net effect of these trends is continued strong household formation throughout the 80's. Whereas the number of households showed an average annual increase of 504,000 in 1940 and 850,000 in 1960, the formation rate jumped to over 1.5 million households in 1975. The 80's may see increases of between 1.5 and 1.9 million households, with 1.65 million a likely average. While the absolute level of household formation is increasing at record, or near-record, levels, there will probably be a slight slowing in the annual levels of percentage increase in number of households, from 2.2 percent per year in the early 80's to 1.8 percent per year in the late 80's. Overall, the number of households will increase by 9 million units (16 percent) in the 80's (see Figure 3) surpassing even the 70's phenomenal seven million household, or 14 percent, increase.

Another household formation trend worth mentioning is the changing distribution of household type with regard to family or non-family status. Husband-wife households comprised over 62 percent of the total households in 1978 according to the Bureau of Census Current Population Survey, while non-family households, (predominantly one-person) comprised 25 percent of all households. This distribution is likely to stand at 58 percent for husband-wife households in 1985 and almost 29 percent for single households, and by 1990, 55 and 31 percent, respectively. As households become smaller, with increasing numbers of single and elderly people, housing demand will also shift to require different forms and locations of housing. The

repercussion in the housing market will be significant, to say the least.

Another baby boom

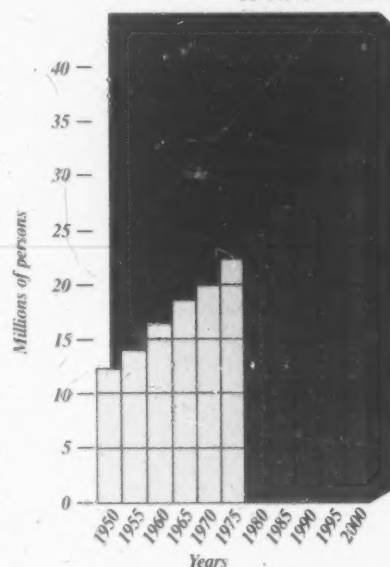
Those who have not yet recovered from the impact of the WWII baby boom on both the housing and mortgage markets had better hold on to their seats, or better yet, their houses: the potential for another baby boom, perhaps even bigger than the last one, is in place. The WWII baby boom, which created a bulge in the prime first-time house-buying cohort, has also created a respectable bulge in the number of women 18 to 34 years old—the prime childbearing age. Because of this expansion, another population explosion is a distinct possibility.

For instance, women 18–34-years-old accounted for 87 percent of the total fertility rate in 1975. In 1950, there were approximately 20.3 million women between the ages of 18 and 34. In 1985, this number is expected to stand at 33.8 million, or a 66.5 percent increase over the 1950 level. With such a huge expansion in the childbearing population, it is easy to imagine a future baby boom that would make the last one appear meager by comparison.

The repercussions of the WWII baby boom may span over a century, or its effects may dribble away in a matter of decades. The unknowns regarding birth rates and fertility are as great as the potential for continued radical population growth.

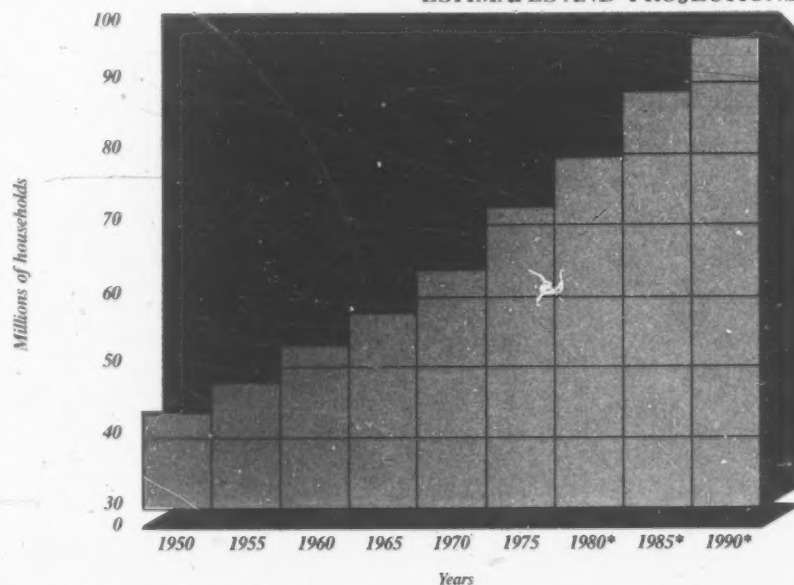
In all likelihood, however, the sequel to the WWII baby boom, like most sequels, will not approach the relative magnitude of the original. After all, a glut in the childbearing population alone does

**FIGURE 2
POPULATION
TRENDS BY AGE GROUP:
65 AND OVER**



SOURCE: U.S. Bureau of the Census, July 1977

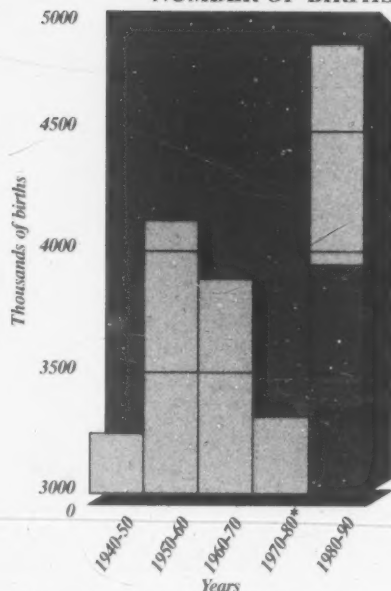
**FIGURE 3
NUMBER OF HOUSEHOLDS:
ESTIMATES AND PROJECTIONS**



* Projection—Series B (new)

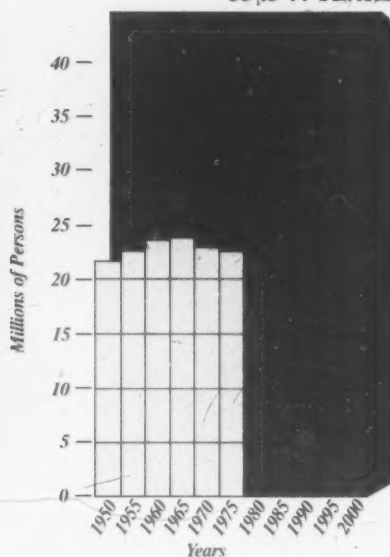
SOURCE: U.S. Bureau of the Census, May 1979

**FIGURE 4
AVERAGE ANNUAL
NUMBER OF BIRTHS**



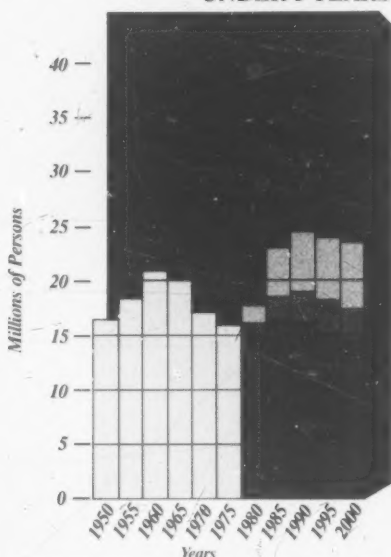
*Average is a composite of 1970-76 estimated births and 1976-80 Series II projected births.
SOURCE: U.S. Bureau of the Census, July 1977

**FIGURE 6
POPULATION
TRENDS BY AGE GROUP:
35 to 44 YEARS**



SOURCE: U.S. Bureau of the Census, July 1977

**FIGURE 5
POPULATION
TRENDS BY AGE GROUP:
UNDER 5 YEARS**



SOURCE: U.S. Bureau of the Census, July 1977

not necessarily cause a baby boom. Countless other factors relating to fertility rates, employment trends, and general alterations in the American social fabric have to be considered when forecasting future population growth and housing demand. We do not live in so simplistic a world where the mere existence of a record number of women in the prime child-

bearing-age span will necessarily result in a record number of children. In fact, instead of surpassing the average annual birthrate of the 1950s, the 1980's will probably fall short of, or at best only equal, the birth level reached during the first baby boom.

Until 1977, and for longer than anyone can remember, the birthrate was, except for the baby boom's burst of growth, on a protracted decline. This decline was related to a number of factors, including a decrease in size of the average American family, as well as the declining infant mortality rate. However, the first upturn in the birthrate since the 1950 baby boom occurred in 1977, possibly indicating the first sign of the coming sequel to the baby boom.

The imponderables in population forecasting are evidenced by the Bureau of the Census' multitude of population projections. It has hedged its projections by presenting three or four possible scenarios for population growth. These projections are based on a number of underlying assumptions concerning life expectancy, immigration, and fertility.

The alternative fertility assumptions take the form of three different series (see Figure 4). The Series II projection of future fertility corresponds closely to recent survey data on birth expectations of young married women. This series puts the growth of the U.S. population between 1976 and 2000 at 21 percent, from 215 million to 260 million persons. The annual population growth rate under

such an assumption would increase to 0.9 percent during the 1980's, up from the 0.8 percent annual increase experienced in the 70's. This rate of growth would, however, fall far short of the 1.7 percent rate of increase attained at the peak of the baby boom in the 1950's.

The assumptions for Series I and Series III were chosen to provide a range that appears likely to encompass future fertility. Under Series I, the population would increase by an almost rampant 31 percent between 1976 and 2000, while the Series III projections would see a meager 14 percent increase over the same period.

All of these different projections; low-, moderate-, and high-growth scenarios; indicate a birth bulge in the coming decade. Baby Boom II will definitely arrive throughout the 80's and culminate around 1990—however, the magnitude of the coming boom is, as yet, unknown.

The actual outcome of the population growth will radically affect the demand for housing in the coming decades. The slow-growth and eventually declining trend depicted in Series III would point to replacement housing needs, at best, while the high-growth forecast in Series I points to the need for continued additions to the housing stock *ad infinitum*.

But, while the offspring of the second baby boom will not enter the prime house-buying population until early in the 21st century, they will still have a profound effect on housing in the nearer term, the 80's decade.

The under five-year-old population group, which fell over 21 percent in size between 1960 and 1980, will grow an equal amount, over 21 percent, during the 80's, increasing over 17 percent between 1980 and 1985 alone. When compared with the preceding five years' growth of less than 1 percent, the 80's first half will be phenomenal (see Figure 5).

In the early 80's, day-care will join housing as a super growth industry. And from 1985 on, with the second baby boom children attaining school age, elementary schools should see a full-blown renaissance, as many of the persons presently involved with the "back to the city" movement are converted to the "back to a viable school district" movement, with a return to quiet neighborhoods, spacious lawns, and other suburban amenities.

As the present baby boom population matures, household size and income increases will most likely require a trading up in housing. Today's boom is buying into housing in the bargain basement with great expectations of future dream

houses. This group will be churning up the stock for years to come as changes in life-style necessitate changes in residence, usually at much higher prices. If the 25- to 34-year-old age group is characterized as the group buying the most housing, it is the 35- to 44-year-old age group (see Figure 6), into which the baby boom will soon move, that is characterized as buying the more expensive housing.

Data on first-time, as well as repeat, home buyers gathered by the U.S. League of Savings Associations, supports these predictions. The WWII baby boom population entered the housing market as first-time home buyers, who tend to buy lower-cost and older homes. About 50 percent of first-time buyers bought homes costing less than \$37,000

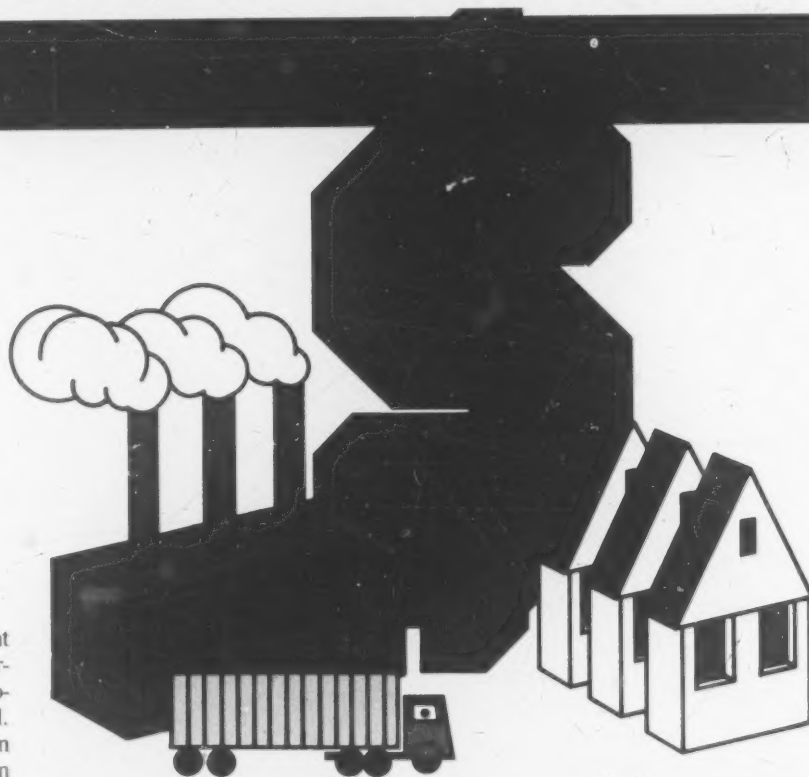
in 1977, while the median sales price for existing homes was \$42,900 and \$48,800 for new, single-family homes. A like percent of first-time buyers also bought homes built prior to 1959.

Home buyers do move up in the housing market, a fact confirmed by the U.S. League's research on repeat home buyers. For example, 68 percent of all repurchasers bought a home costing more than \$40,000 in 1977, while 30 percent bought homes costing more than \$60,000. Similarly, almost half of all repeat buyers bought homes built after 1970, while 29 percent bought new homes. This tendency on the part of repurchasers to buy higher priced, newer homes than first-time buyers do is partially explained by their respective socioeconomic characteristics. First-time

buyers tend to be younger than repurchasers; 21 percent of repurchasers versus 63 percent of first-time buyers are under 30. Repurchasers also have larger households than first-time buyers; 66 percent as opposed to 22 percent of first-time buyers have three or more members. And, first-time buyers tend to have lower household incomes and less accumulated wealth than repurchasers; 31 percent of repurchasers versus 50 percent of first-time buyers have household incomes of less than \$20,000.

Repeat home buyers are generally older and more well-off financially than first-time buyers; thus, they are ready and able to purchase higher priced housing. This is exactly what the offspring of the baby boom will do as they mature during the 80's.

80's ECONOMY



The general economic environment of the 80's will be largely determined by the various demographic trends previously mentioned. The extraordinary growth in population and household formation will underpin the economy with an almost unquenchable thirst for all forms of products and productive capacity.

Less inflation?

The 80's economic environment will also be largely determined by the trends already established in the 70's; it was a decade that took the economy on a vertiginous rollercoaster ride of booms and near-busts. Much of the underlying demand for goods and services was frustrated in the early 70's by recession, which left a considerable backlog of demand. Inflation came to the forefront throughout the 70's partially as a result of

this strong demand/slumping-supply imbalance, but also because of the legacy left by the 60's. This inflation legacy was composed of an ambitious social-spending program in the name of our Great Society, as well as a costly military action in Southeast Asia. Spending for these programs was not adequately matched by taxes, but was matched by inflation.

Adding insult upon injury in recent years was a recurring theme, or nightmare, entitled "The Energy Crisis." The abrupt increases in energy costs and, at times, constricted supply, were a radical departure from the prior decades' gradual

diminution of energy costs. The shock of this crisis did little to help the economy attain anywhere near its potential.

The problems that handcuffed the 70's have slipped into the 80's as well. And, while the near future has, perhaps, never looked bleaker with regard to energy costs and availability, there may be cause for some guarded optimism as well.

The economy, as measured by the ever-popular gross national product (GNP), will average between a 3.6 and a 5.1 percent real rate of increase during the 80's decade (see Table 1). Do not be surprised, however, to see radical shifts on either

**Table 1—Selected Economic Indicators
(Average Annual Rate)**

Year	Real GNP Growth ¹	Unemployment Rate ²	Consumer Price Increase ³
1950-54	4.6%	4.0%	2.5%
1955-59	3.3	5.0	1.6
1960-64	4.0	5.7	1.2
1965-69	4.3	3.8	3.4
1970-74	2.5	5.4	6.1
1974-79	2.9	7.0	8.1
1980-84*	3.6	6.7	6.7
1985-89	5.1	3.5	5.7

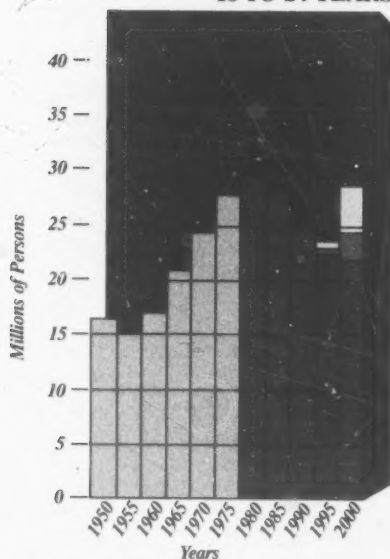
¹Gross National Product in 1972 Dollars; Average Annual Growth Rate. Source: U.S. Bureau of Economic Analysis

²Unemployment rate, total; Average Annual Rate. Source: U.S. Bureau of Labor Statistics

³Index of Consumer Prices, All items; Average Annual Growth Rate. Source: U.S. Bureau of Labor Statistics

*Source of 1980-89 Projections: Baseline Case Projection of the Joint Economic Committee of Congress, August 9, 1979

**FIGURE 7
POPULATION
TRENDS BY AGE GROUP:
18 TO 24 YEARS**



SOURCE: U.S. Bureau of the Census, July 1977

side of this modest average as the recession the 80's entered with is eventually replaced by an expansion of impressive magnitude. This economic expansion will only be kept within the realm of historic precedent by recurring productive capacity limitations, energy crises, and credit crunches. The modest average

increase in GNP throughout the decade may well obscure trends of increasing quality of life even without a proportionate increase in quantity, as a shift to efficiency and conservation makes for a much more effective use of resources.

The future GNP measure may well reflect a long overdue shift in the U.S. international balance of payments to a much more positive position, except, perhaps, in relation to the OPEC nations. The dollar's decline, relative to other currencies, has made U.S. products much more competitive abroad, while imports have become relatively more costly compared to goods produced in the U.S.

Productivity, simplistically measured as output-per-man-hour, may enjoy a boost in coming years due to possible technological advances, increasing productive capacity, and the maturation of large segments of the workforce. While it is particularly hard to second-guess technological advances and investment trends, a large segment of the workforce, specifically the WWII baby boom, will be entering its most productive years. After nearly a decade in the workforce, the baby boom's aggregate level of skills has increased markedly. The large levels of unemployment and especially underemployment that plagued the 70's, will give way to more optimal levels. Whereas the baby boom swelled the ranks of new job entrants in the last decade, there

will be fewer and fewer new entrants in the coming decade. The new entrants, typically between 16 and 24 years old and traditionally accounting for between 10-15 percent of the unemployed, will decrease markedly throughout the 80's as the number of 14- to 17-year-olds declines by 20 percent, and by 15 percent for 18- to 24-year-olds (see Figure 7). The 70's job market was literally swamped with new entrants. The coming slowdown in new entrants will contribute to the general slowdown in growth of the total labor force as well as to the declining unemployment rate. A process of assimilation has occurred in recent years: the 70's job entrants are now veterans of the working world.

With the maturation of the work force, lower unemployment rates can be expected. In mid-1979, when the unemployment rate stood at 3.9 percent for men 20 years and over, and at 5.8 percent for women in the same category, people of both sexes aged 16-19 years were experiencing a 15.3 percent unemployment rate. Of course, age is not the only factor; there will be cyclical economic downturns during the 80's that temporarily boost the rate, but for the most part, the average unemployment rate should range between 3.5 and 6.7 percent of the civilian labor force (see Table 1). Most of our guarded optimism arises from the tenuous premonition that inflation will be a much less formidable malefactor in the 80's than was the case during the 70's—at least in the majority of sectors.

Energy and incomes

While energy price increases continue to add upward pressure on the price indexes, a partially compensating reduction in per capita energy usage may mitigate the price rise. Smaller cars, energy-efficient houses, energy-pinching appliances—all phenomena of the post-energy crisis—will proliferate in the 80's. It will be through such conservation measures more than through an alternative energy source that real progress toward energy self-sufficiency will be made. But by the end of the decade even the more exotic energy alternatives may be cost-competitive with today's scarce and costly energy resources.

The energy crisis has led to premature energy obsolescence. As the cost of energy inputs has skyrocketed, there has been a shift by both consumers and producers to energy-efficient goods. While at first such a transition can leave certain energy-losers such as big cars and under-insulated houses with a substantially reduced market, energy innovations and

efficiencies can lead to years of booming sales. For example, small cars, pilot-free gas fixtures, home insulation, and virtually any energy saving piece of equipment, are all enjoying a boom.

Spiraling energy prices will not be the only inflation booster in the coming decade; supply shortfalls in housing and related industries will also put continued pressures on price increases. But rising productivity, in general missing from the 70's, and moderating food prices should keep inflation out of the double digits during most of the 80's. In fact, barring any number of possible economic catastrophes, the average annual growth rate of the Consumer Price Index may be held in the realm of 5.7 to 6.7 percent annually during the 80's—a marked improvement over the late 70's (see Table 1).

Rising productivity, and the full employment of the labor force, together with moderating inflation, mean that rising real incomes may make a comeback during the 80's. And with this comeback may come renewed consumer optimism and consumption.

Two-earner family trend

Consumer purchases will once again be a mainstay of the economic expansion as home building, home buying, and home furnishing become the hobby of thousands more households. Tacked on to the many and varied purchases relating to homeownership will be the purchases relating to child rearing, as Baby Boom II swells these households.

Even though increases in per capita real income lagged in the 70's, substantial increases in real income have occurred and will continue through the 80's for many households because of the increased incidence of dicephalism; that is, two-earner families. The number of families with incomes in excess of \$25,000, measured in terms of 1979 dollars, is expected to continue its marked increase in the coming decade. The percent of families in this advanced income group was approximately 20 percent of all families in the late 60's, 30 percent by the late 70's, and now is expected to reach 40 percent by the late 80's. It appears that more and more households are finding that, with regard to their financial position, two heads are definitely better than one. The number of working married women increased from 30 percent to nearly 50 percent by the end of the 70's, and is likely to swell to 60 percent during the 80's. Families' increased dependence on this second income is evidenced by the fact that, in recent years, probably 30 percent of all families that purchased

single-family houses contained secondary earners contributing between 30 and 50 percent of total household income. Moreover, the percentage of income spent on housing has increased over the years, reflecting most people's willingness to spend more for their houses. The traditional 25 percent limit of income spent on housing has inched up in recent years with households spending up to an additional 10 percent of their income in "hot" real estate markets. This increased spending on shelter probably reflects a thrifty transfer of investment into housing by many families who have been impressed by rising values and tax advantages associated with owning houses and very unimpressed by the return available on their savings in thrift institutions.

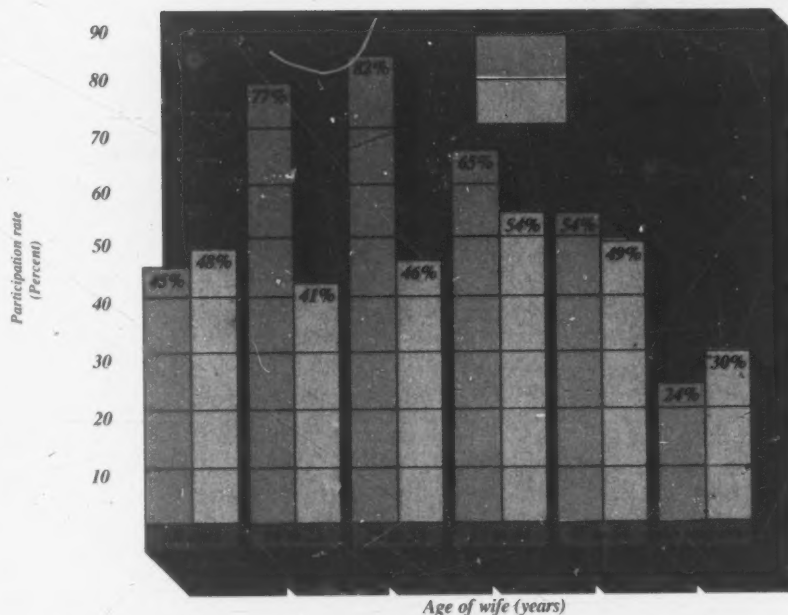
Will the arrival of Baby Boom II put an end to dicephalism, returning mother to the home, shrinking the labor force and causing a noticeable reduction in household income? Not likely. The labor force participation rate for presently childless married women between 25 and 34 years of age is 82 percent. For women with a college degree, that rate approaches 90 percent. These women are accustomed to working outside the home and are probably career-oriented, so if there is some amount of withdrawal by parents from the labor force in the early years of child rearing, they will probably return to the labor force in a short time for economic,

as well as career, reasons. The cost of day-care either through relatives, non-relatives, or day-care facilities is, in most instances, only a fraction of the increased income generated by a second working spouse. While the participation rate for married women with children under five years old may drop as low as 30 percent, that rate quickly climbs as the children grow up, reaching over 57 percent with 14- to 17-year-olds. In fact, married women who had one or more children under 18 years of age were just as likely to be members of the labor force as married women who did not have children (see Figure 8).

So the net effect of the second baby boom on participation rates and household income will probably be a temporary decrease, but then will return to high levels of participation as the expense of child rearing takes its toll. Interesting trends to be on the lookout for in coming years are gains in the frequency of both spouses working only part of the year or for more fathers to devote themselves to child rearing in the home.

With the maturing of the labor force, anticipated gains in productivity, and moderation in inflation, there will likely evolve, during the coming decade, an economic environment that allows the many potential home buyers to realize their potential by successfully bidding for that scarce resource—housing.

FIGURE 8
LABOR FORCE PARTICIPATION RATES
OF MARRIED WOMEN¹



¹Employment Status as of the week before the March 1977 Current Population Survey
SOURCE: Bureau of Census

80's CONSTRUCTION



The 1980's are likely to see a new golden era in construction, with building activity even surpassing the early 1970's levels. Housing, as well as commercial, industrial, and institutional construction, will benefit from the expanding demographic and economic trends envisioned for the 80's. And while such a boom era is probable, there will be a greater emphasis on energy and space efficiency throughout the 80's as resource scarcity and escalating construction costs mandate a fascinating dichotomy: an almost frugal golden age.

The demand for housing during the 80's will reach an all-time high as the number of persons in the prime house-buying age group peaks, and as their life cycle becomes much more family-oriented once Baby Boom II has arrived. Another factor affecting this demand will be strong gains in real household income during the decade. Traditional forecasts of housing demand based on simple projections of net household formation and losses of existing housing stock also need to consider the changing life cycle of the prime house-buying population. This population was largely responsible for the condominium boom of the 70's and, as families expand with the coming of Baby Boom II in the later half of the decade, a renewed interest in suburban living will emerge and the "back to the city" movement will ease. The one-bedroom condominium of the 70's will be useless to the family of the 80's and 90's with one or two children; the exodus to the suburbs will be reborn and with it will

come incredible pressures on the homebuilding and mortgage finance industries.

Supply demand ratio

An indication of the demographic input to this swelling demand can be seen in the ratio of the prime house-buying population to housing starts. The prime house-buying population (households whose heads are between the ages of 25 and 34 years old) was responsible for the purchase of approximately 50 percent of the single-family houses sold in recent years. It follows that substantial changes in this population group will have a marked effect on house sales and construction activity. This has been the case during the past decade and will continue throughout the 80's decade with the coming of house-buying age of the World War II "baby boom" population.

The ratio of population to housing starts has diverged from its relatively stable 15-year average of 15 persons per start between 1959 and 1973 to an average ratio of 21 for the last four years. This rapidly climbing ratio indicates a 40-percent increase in potential demand relative to actual supply. The ratio's 10-percent average yearly increase between 1974 and 1977 approximates the rise in house prices over the same period. The average sales price of new one-family houses actually sold increased from \$38,900 in 1974 to \$54,200 in 1977, a 39-percent increase.

When total housing starts are plotted against the 25- to 34-year-old population, recent and probable future demand-supply problems became obvious. From

1959 to 1970, housing production fluctuated closely with the increasing population, but extreme disparities developed in the 70's as housing production experienced some radical shifts. The boom started in 1970 and, supported, in part, by the Federal government's FHA 235 program, ended abruptly in 1973. The housing recession that followed was accompanied by expansion in demand as population growth and household formation continued at high levels.

The resulting gap between supply and demand for housing created during the 1974-75 recession is still with us today and will worsen during the early 1980 economic slowdown. It would have required two high-production years similar to 1978 to boost supply into the same ballpark as demand; and then, it would require starts in excess of two million units per year throughout the 80's to maintain the 16.5 person average ratio that existed between 1959 and 1977. In fact, the number of starts will have to increase in the following manner: 2.2 million in 1980, 2.4 million in 1985, and 2.5 million in 1990, to support the average historical relationship throughout the coming decade.

The hope that supply returns to a level compatible to demand is a very tenuous one at best. In fact, most projections of housing starts in the not too distant future indicate a downward trend, rather than a return to record levels. Starts are projected to drop from the two million-plus unit per year level of 1978 to 1.5 million in 1980, as housing activity succumbs to its traditional status as "odd-man-out" in

times of credit stringency. Housing production for the decade as a whole should advance from 1980's depressed level, reaching annual averages of between 1.9 and 2.4 million units. In terms of the ratio, it will probably stay in the neighborhood of 21 persons per start throughout the 80's, creating an average annual shortfall between expected and equilibrium starts of around 500,000 units (see Figure 9 and Table 2). Therefore, instead of a solution to the demand-supply problem in housing, we will witness a further exacerbation with continuing increases in housing prices as witnessed in the recent past. This shortfall, however, should be at least partly mitigated by expanding housing rehabilitation and manufactured housing activity—but not enough to dampen rampant price rises.

Housing costs and prices

Tight monetary policy notwithstanding, inflation will be with us throughout the 80's, especially in the housing sector where demand so far outstrips supply. Factors like the fast shrinking supply of readily developable land, rising labor, materials, and financing costs and an over-abundance of government regulation will all combine to push housing prices to higher and higher levels.

The average American household has no better hedge against the ravages of continued inflation than to purchase a house. So, as inflation continues, demand for homeownership increases. And while the general rate of inflation is expected to abate somewhat through the 80's, certain sectors with extreme supply and demand imbalances, like housing, will continue to see double-digit inflation rates.

The median price of new single-family houses sold between 1974 and 1978 climbed from \$35,900 to \$55,700, or 55 percent, and over the same period, the consumer price index increased about 32 percent. Not only does the single-family house offer a good hedge against inflation, it also provides various tax advantages that compound those benefits even more. With so many benefits accruing to homeowners, housing demand is expected to stay hot throughout the 80's—the same goes for house prices.

The Joint Economic Committee of Congress projects a \$125,000 price tag on a new home by 1988, based on a 120-130 percent expected increase over this time period. Its more pessimistic forecast would mean an average price of \$151,200. On a slightly brighter side, regulation reform and use of less expensive materials and methods could yield a \$6,000 per house savings in 1988, which

Table 2—Potential Housing Production Shortfall (in thousands)

Year	24-34 Year-Old Population Group	Equilibrium Starts ¹	Projected Starts ²	Potential Housing Start Shortfall
1980	36,172	2,188	1,722	466
1981	37,462	2,266	1,784	482
1982	37,861	2,290	1,803	487
1983	38,540	2,332	1,835	497
1984	39,203	2,372	1,867	505
1985	39,859	2,411	1,898	513
1986	40,445	2,447	1,926	521
1987	40,863	2,472	1,946	526
1988	41,118	2,487	1,958	529
1989	41,222	2,494	1,963	531
Average				
1980-89	39,274	2,376	1,870	506

¹Equilibrium starts based on the average ratio between 1959 and 1977 of the prime house-buying population to housing starts.

²Projected starts based on a scenario where the average ratio of the prime house-buying population to housing starts in the 80's is analogous to the experience of the ratio between 1974 and 1978.

Sources: Population Projections—Bureau of the Census, July 1977; Housing Start Projections—MBA Economics Department, December 1979

leads to an "optimistic" projection of about \$119,000 for an average new home (see Figure 10).

Such regulation reform should not be underestimated. Regulation from all levels of government and concerning all aspects of homeownership and construction significantly impacts all housing and mortgage activity. Here are just a few of these many regulations:

- land use controls
- building codes
- environmental protection requirements
- timber-cutting limitations
- lending restrictions and regulation
- usury laws
- rent control
- moratoriums on water, sewer and condominium conversion
- interest rate limitations on savings accounts and mortgage loans

While this abbreviated list does not reflect the full extent of the regulations surrounding homeownership and construction, it does illustrate the highly circumscribed nature of the housing market.

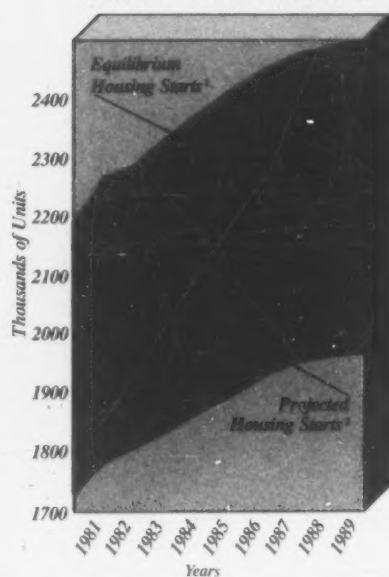
Do not be too surprised if the number of housing-related regulators and their regulations continue to expand at an al-

most exponential rate throughout the 80's. Whereas environmental protection was the call to arms for regulators in the 70's, with added land use restrictions and impact statement requirements, the 80's may well be the decade of energy conservation with environmental concerns forced into the back seat. More restrictive land use regulations, building codes to promote energy efficiency, as well as possible energy impact statements and a host of other potential regulations could further encumber the housing markets.

Also, an early 80's battle will probably develop over the Building Energy Performance Standards, which the National Association of Home Builders has estimated could boost the building cost of multifamily units by 3 to 5 percent and could add from 75 cents to \$1 per square foot to the price of single-family houses. The battle arises over the cost-effectiveness of these energy savings, which may fall far short of the cost of several mandated energy-saving improvements.

The 80's may also see the proliferation of a new underwriting emphasis that includes energy considerations, along with other underwriting criteria. Qualifying mortgagors, based on monthly PITI&E

**FIGURE 9
POTENTIAL HOUSING
PRODUCTION SHORTFALL**

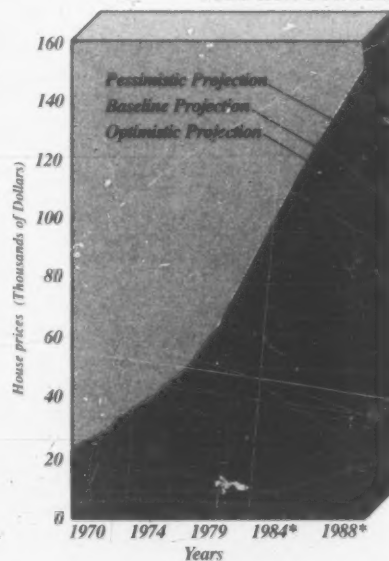


¹Equilibrium starts based on the average ratio between 1959 and 1977 of the prime house-buying population to housing starts.

²Projected starts based on a scenario where the average ratio of the prime house-buying population to housing starts in the 80's is analogous to the experience of the ratio between 1974 and 1978.

SOURCE: MBA ECONOMICS DEPARTMENT
(See Table 2)

**FIGURE 10
NEW HOUSE
MEDIAN PRICES**



*The projections are based on the following annual inflation assumptions: pessimistic case 9.5%, baseline case 6.5%, and optimistic case under 5%.

SOURCES: Pre-1980 Prices: U.S. Bureau of the Census (Median New One-Family Sales Price). Post-1980 Prices: Joint Economic Committee of Congress (Median New House Prices)

(payments of principal, interest, taxes, insurance, plus energy-related costs) amounts, would facilitate the financing and general affordability of costly energy improvements. Savings in monthly household operating costs, resulting from energy improvements, would be reflected in the PITI&E: the lower the E component, the more affordable the house. The inclusion of reduced energy operating costs into the underwriting process will, at least partially, compensate for the higher principal and interest payments created by the added front-end costs of the energy improvements. The coming decade should see considerable improvement in both the technological and financial appraisal of energy-saving improvements and enable their proper reflection in the underwriting process.

Many of today's myriad of regulations result in added benefits, if not for the individual then at least for the community. At the same time however, many of these regulations result only in delay, adding to housing cost without any compensating benefits. Continued pressure for government to deregulate or eliminate requirements that are costly but non-productive is a start toward reducing inflation in house prices. Similarly, deregulation would encourage greater housing production and would, in turn, reduce the "demand pull" inflation caused by relatively low levels of production.

Housing shape and size

A major housing trend that may emerge during the 80's in response to energy and cost considerations and the shrinking size of households is the possible reduction in size of the average new house. With this size-reduction will come increased emphasis on energy efficiency (even without government regulation). Trends in land cost and availability, as well as public service provision, will tend to have an aggregative force: increasing densities and reducing sprawl. While certain builders will market "no frills" housing, there will be continued emphasis on amenities and on shared amenities like swimming pools and tennis courts. Homeowner associations will proliferate.

While the shape of things to come will be more compact for the most part, the housing industry may make progress toward attaining a "liveable density," whereby privacy and private ownership flourish on many more than one unit to an acre. Townhouses with private courtyards, soundproofing, good design (both inside and out), and a population that is sympathetic to living with density and enjoying the increased variety of amenities that density allows, will contribute to

this. Visions of megastructures are not likely. Instead, townhouses and other forms of moderate density will be the likely form. Of course, the single-family detached structure will remain as the predominate and most revered structure type. But, as mentioned, the single-unit structure of the future will be much more compact in building, as well as in site requirement; it will be much more efficient and much more expensive than ever before.

For the most part, the shape of things to come will look familiar. Since new construction will fall far short of the needs of a rapidly growing home-buying population, existing housing structures will be used more and more intensively. The 80's will see the continuance and expansion of the boom in rehabilitation, renovation, and re-use of buildings.

The surging population group of first-time buyers usually enters the housing market as buyers of existing homes and will provide much of the impetus to the renaissance of the existing housing stock. Buildings in disuse or underuse will be reborn, factories and warehouses will become condos and shopping malls, the existing stock will be upgraded, modernized, and "energized" to the tune of many billions of dollars. In fact, home improvement loan volume is likely to exceed new home loan volume by the end of the 80's, with a marked impact on both primary and secondary mortgage markets.

Most of tomorrow's housing will be today's housing, but rehabilitated. And much of the new housing will be dense like yesterday's townhouses; the house of the future: the spitting image of the house of the past.

Technological advances, which are such an unknown when looking into the future of so many other industries, are not as critical for homebuilding—at least not yet. Wherefore art thou low-cost modular fiberglass house with an independent solar energy system and chemical toilets? Nowhere. The labor-intensive housing industry will stay labor-intensive. Today's building materials will be, for the most part, tomorrow's materials; mass production will not be massive. There may be a continued expansion in the use of certain mass-produced components in home building, which will yield a "modified" stick built house, but a manufacturing revolution in the housing industry is not likely this decade. This is not to say that manufactured housing, *a la* mobile home shipments, will not retain an important share of the new housing market and even gain greater market acceptance as the manufactured housing

development emulates standard stick-built subdivisions. But mobile homes will not be immune to rapid price increases, which will rise in step with land and materials prices, in general.

Income producing properties

The boom in construction will not be limited to housing; income producing and institutional properties will enter their own golden-age, or perhaps more correctly, their own "white-collar age." The baby boom has moved out of institutions of higher learning into institutions of higher earning: the world of white collar work. This rapid influx of young office and retail workers has contributed to the rapid expansion in office and retail build-

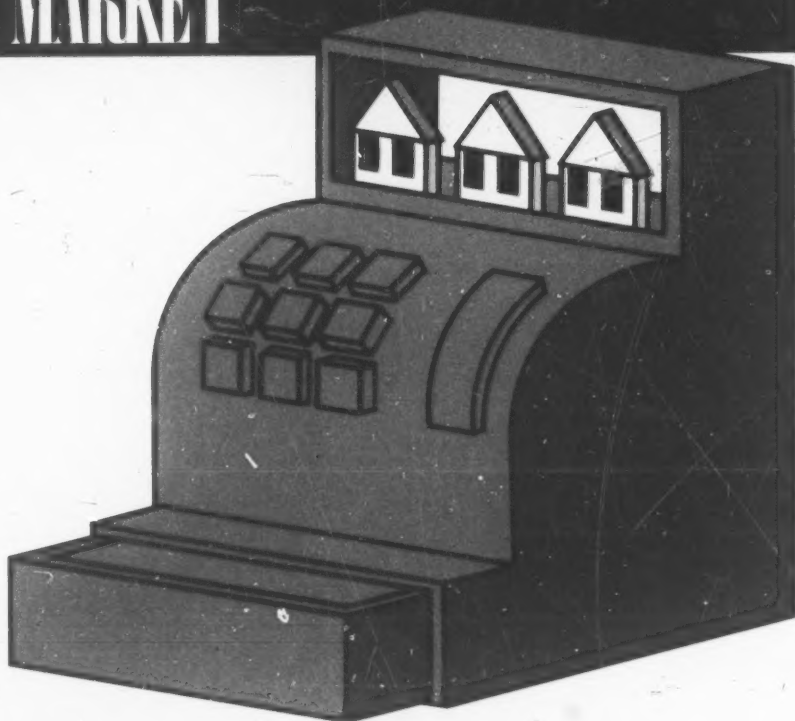
ing. The hectic house construction activity in recent years, together with continued suburbanization, has given great impetus to retail store construction, which, in turn, supports warehouse building, and, finally, additions to productive capacity, including manufacturing-related structures.

The energy emphasis will play a substantial role in income producing properties as builders are required to maximize energy efficiency to avoid energy obsolescence only a few years down the road. As the second baby boom enters the primary education system late in the 80's, the elementary schools of their parents will have to be energy-enhanced, having been built in a time of declining energy

costs. This is also true about the majority of the housing stock built prior to the energy crisis. The energy improvements required on many existing structures will come close to costing as much, if not more, than the original structures cost, especially on structures more than ten or 20 years old.

Construction activity in the 80's should reach extremely robust levels from its present languishings, despite the ever-increasing environmental, economic, and, now, energy constraints placed on the industry. The fast-emerging demand for most structure types, both residential and commercial, should be able to coax record construction activity—at record cost—in the coming decade.

80's MORTGAGE MARKET



The tremendous demand for housing, both teamed with and contributing to continued inflation in house prices, will detonate the 1980's mortgage and capital markets. The volumes of funds necessary for future mortgage financing will be expanding to almost unimaginable levels, requiring further radical restructuring of the mortgage markets.

Of course, a general restructuring in the mortgage markets isn't anything new. The WWII housing boom in the 50's, continued expansion in the 60's, and the boom-bust environment of the 70's have forced the mortgage market to continually expand, taking on new players and institutions, including an entire secondary market structure. While the mortgage market has evolved to become the largest capital user in the economy, much, much more capital will be required in the

near future to facilitate the tremendous growth expected in the 80's.

The mortgage market metamorphosis has already started and must continue, and new innovations must be continually developed and refined. The growth experienced in the past few decades, which transformed the mortgage market, was only a prelude to what is to come in the 80's. If housing starts are provided to meet the rapidly expanding demand of the 80's, it is not unreasonable to project annual origination volumes in excess of \$500 billion by 1985, which is more than twice the expected 1979 volume and almost nine times greater than 1970's level.

How are today's lending institutions going to generate this kind of money, when today's volumes are difficult enough to sustain? At the end of the 70's, it looked as though personal savings, thrift institutions, the traditional source of most mortgage funds, were going to be placed on the endangered species list, along with the thrifts themselves.

Plight of the thrifts

While our energy sources have been subject to premature obsolescence, the financial sector is similarly experiencing accelerated obsolescence because of an inflation crisis. People on fixed incomes

are in dire straits, as are institutions with portfolios of older fixed income assets.

Savings institutions, especially, are confronted with this inflation-induced obsolescence and, in turn, are faced with what they would probably consider premature extinction. National policy, aimed at holding down the cost of lendable mortgage funds via interest rate ceilings and, thereby, subsidizing mortgage lending at the cost of the traditional saver, is no longer viable. Savers, when given the option, will seek to maximize their return on their investments; hence, the massive disintermediation that has, at times, plagued the savings institutions. At such times of rising interest rates and prices, there is little or no incentive to save, even less to save at the below market interest rate offered at thrifts, except for certain liquidity needs or because of special inducements like toasters and dishes.

The savings institutions' problems are further compounded when the ratcheting up of interest rates plunders the value of their fixed-income mortgage portfolio. Thrifts are then caught in a very uncomfortable squeeze: they fail to attract new funds or actually experience disintermediation when they want to originate high-yielding mortgage instruments. Their ability to attract additional funds is limited by interest rate ceilings, and their willingness to lend is stifled by usury ceilings for mortgages. Considering all their problems, one begins to wonder if the traditional thrift institution is as obsolete as a V-8 gas guzzler.

A return to a more free-market orientation, which government always manages to preempt, may go a long way toward the revitalization of thrift institutions and the mortgage markets in general. A paradox is likely to develop in the 80's as the thrifts both battle to stave off extinction caused by excessive regulation and yet are reluctant to embrace the free market place. Their many decades of sheltered operation have left the thrifts a little timid to try the fast-moving waters of the market.

Restructuring the mortgage market

The solution to the energy crisis is a general restructuring of energy sources and uses. The same general solution applies to the financial crisis: an aggressive restructuring of sources and uses of assets and liabilities, the tapping of wider capital sources, and shifts to alternative mortgage instruments are needed to survive in a climate of inflation and capital scarcity.

The key to the near-term restructuring and revitalization of the mortgage market

lies largely within two related areas: regulation and securitization. A third area, agglomeration within the mortgage and real estate industries, will also contribute to the restructuring later in the decade.

Regulation and other forms of government intervention in the mortgage and housing markets span a wide spectrum, from being very useful to being extremely detrimental in the operation of the markets. In seeking to have one's cake and eat it, too, it is hoped that positive forms of government intervention, such as loan guarantees and subsidies for the poor, will remain throughout the coming decade. On the other hand, it is also hoped that obsolete or harmful government intervention, such as deposit and mortgage interest rate ceilings, are

Savings institutions, especially, are confronted with this inflation-induced obsolescence, and, in turn, are faced with what they would probably consider premature extinction.

phased out early in the decade so that lenders can compete to attract the necessary funds into the exploding mortgage markets.

The growing realization that the usury ceiling is a very large impediment to the efficient flow of real estate capital should contribute to the continued relaxation of such ceilings during the 80's. The ceilings' obstruction of flows will create added impetus for indexation of the ceilings, and Federal exemption from state usury ceilings for FHA-insured mortgages, VA- and FmHA-guaranteed mortgages, and conventional mortgages eligible for sale to FNMA, FHLMC, and GNMA.

The mortgage markets will exert tremendous pressure on the capital markets throughout the 80's as mortgage lending surges and as traditional sources of funds find it almost impossible to keep pace with such huge loan demand. The national secondary market will be called on by more and more lenders and investors alike as a conduit for mortgage capital. The existence of diverse and often inconsistent state and local real estate laws and procedures will hinder the free flow of capital across state lines, thereby reducing its availability and/or adding substantially to its cost.

Pressures will mount throughout the 80's to refine the relatively puerile secondary market, to facilitate the fast-growing mortgage demand. The move toward uniformity in the mortgage markets will spread. First, uniform loan

documents—FHLMC's and FNMA's adoption of uniform documents was a major step—and then perhaps uniform foreclosure and settlement procedures. The goal of such uniformity, as with a similar move toward uniformity in the commercial credit area (Uniform Commercial Code), is to modernize and improve the existing system so that it can handle the strains of a fast-expanding market. Even bringing uniformity, and especially some realism, to the presently disarrayed usury laws may help housing consumers obtain mortgage financing during periods of tight credit, as well as allow lenders to provide such financing at market rates. These moves toward uniformity will make for a more efficient mortgage market and facilitate the flow of funds to this expanding sector.

The relaxation of prohibitions on a multitude of alternative mortgage instruments in the late 70's has placed both borrowers and lenders in a much stronger position to realize their investment objectives. Many consider the standard fixed payment mortgage to be practically obsolete in the current and prospective inflationary climate. And continued emphasis on graduated payment mortgages, as well as variable rate mortgages, will facilitate the proper operating of the mortgage market for thousands of first-time house buyers and for lenders, as well.

Regulation Q will not last the decade; it is already being circumvented; practically 40 percent of all savings deposits are now being placed in money-market certificates, which reflect the market. The extension of the market-related rates to smaller savers will effectively do away with Regulation Q's limitations. The resulting rise in cost of lendable funds will necessitate higher mortgage rates, especially if thrifts are still constrained to the mortgage lending business.

No one appreciates the securitization of the mortgage market quite as much as mortgage bankers. Their mortgage sales through such means will probably exceed 50 percent of total sales for both government-backed and conventional mortgage-backed securities (CMBS) during the 80's. The investment quality of soundly underwritten conventional mortgages is well documented, so the acceptance of the CMBS is likely to accelerate throughout the 80's. The volume of conventional mortgage-backed securities will probably surpass the volume of government-backed issues by mid-decade.

The securitization of the mortgage market may contribute to a healthy form

of disintermediation if the sale of these securities is extended to small investors. Such securities would be high-yielding, low-risk investments, which are still reasonably liquid. Of course, savings institutions could react by issuing a variety of participation certificates to their "depositors" for attracting funds, originating, servicing, and passing on most of their portfolio before inflation devalues it.

Mortgage bankers have had the right idea all along, and it seems that more and more institutions may be getting into the act. Savings and loan associations, which are second only to GNMA as investors in mortgage banker-originated loans, are beginning to do (or acquire) more and more of their own mortgage banking operations.

The introduction of the money-market certificates may have slowed the S&L's venture into secondary mortgage markets since the thrift industry found the new certificates to be an effective source of funds and was not forced into secondary market sales to the extent that would have occurred without such a certificate. However, the thrift industry still finds it quite profitable to deal in secondary market operations; therefore, mortgage bankers can expect continued expansion of the thrifts into their domain.

The advent of interstate branching for deposit institutions would provide them another competitive advantage in the mortgage banking business. A nationwide branch network would not only increase the ability of deposit institutions to attract funds but would provide the basis for loan origination and regional servicing centers that have traditionally been the mortgage banker's domain.

Changing institutional structures

Barriers between various segments of the domestic and international capital markets are giving way to the tremendous capital requirements of the mortgage lending industry. The 70's saw the maturation of the GNMA mortgage-backed security (MBS), which offered an attractive yield, virtually risk-free, to nontraditional mortgage money sources like the pension funds.

While the MBS competed for long-term capital, the Department of Treasury was confronted with some convincing competition for short-term funds in the form of the money-market certificate (MMC). While the MMC was probably more instrumental in dulling disintermediation than making further inroads into new segments of the capital market, it probably represents the wave of the future as an example of the more aggressive tactics that depository institu-

tions will be forced to take, not only to hold their ground against competing investments, but to actually break new ground.

During the coming decade, America's voracious appetite for mortgage funds will likely extend into the farthest reaches of Europe, as well as the Mid- and Far East, virtually anywhere with "bargain capital" relative to the U.S. capital market. A new financial instrument, dubbed a collateralized certificate of deposit (CCD), may soon be used widely by S&Ls seeking to tap this huge pool of capital.

The proposed FHLBB regulations for these CCD's limits their sale to non-

ferred units in a six-month savings fund in minimum denominations of \$1,000 at rates twice as high as regular savings accounts. Also, Merrill Lynch has been sued in Colorado by the State Commissioner of Banks for operating as a bank through its money management account.

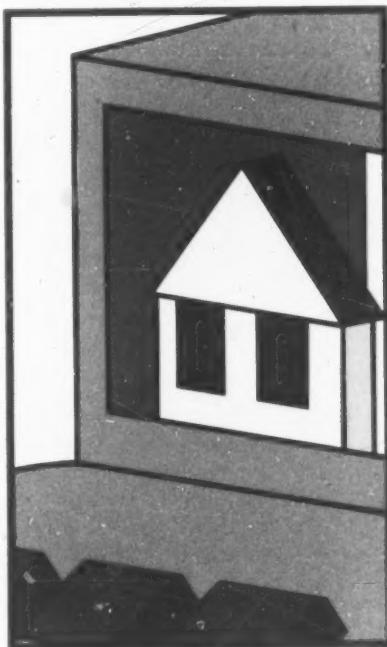
The key to the near-term restructuring and revitalization of the mortgage market lies largely within two areas: regulation and securitization.

This account allows a Merrill Lynch customer to write checks to be covered by a transfer out of the customer's Merrill Lynch account into their demand deposit account at an Ohio bank. The customer can also borrow against his account to the extent of his eligible margin on investments held in the account. This is relatively new and promises to be another formidable form of competition for banks and thrifts.

Such competition could lead to a reduction in mortgage funds available from banks and thrifts and may reduce the importance of thrifts as mortgage banker customers. Similarly, increased competition for funds could force thrifts to become even more involved in mortgage banking-type operations themselves, in order to maintain their profits and provide for their capital requirements, which are becoming more and more strained every year.

Agglomeration

Another possible form of mortgage market restructuring could take the form of the agglomeration, or the integration of most, if not all, of the players in the savings and mortgage market. The sleeping giant in the arena of possible agglomeration could be a retail store, or an investment banker. One prominent retailer has developed an almost unbelievable financial network throughout the United States. This network includes a savings and loan association, life and casualty insurance operations, a private mortgage insurance company, and retail stores or mail order facilities available in every state. If this network so decided, and if regulators and legislators so permitted, it could open mortgage origination operations throughout the country overnight, and sell the loans to their S&L, life and casualty insurance companies, pension fund, or profit-sharing trust. It could even insure the loans through its mortgage insurance company, while providing credit life policies to its borrowers.



U.S. investors in the eurodollar market and requires a minimum \$100,000 denomination, *a la* our domestic jumbo CD's. These CCD's would be collateralized, actually over-collateralized, by mortgage loans, in the range of 150 to 175 percent of principal to achieve top credit ratings. Other mortgage-backed instruments to tap the international market will evolve over the coming years, so that more and more lenders can participate in the global capital market.

Savings market

The investment banker, who was involved in almost every major innovation in the secondary market in the late 70's, will probably become increasingly involved in the competitive side of the savings market into the 80's. Firms such as Merrill Lynch and Dean Witter, have of-

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This retailer could easily finance such an operation by paying interest on credit balances on charge cards and, thereby, maintain the entire operation within one holding company. Just imagine their loan origination office located appropriately between the appliance and hardware department in each of their stores in America! Not a bad location.

It is also conceivable that such a network would not establish its own loan origination system, but rather establish correspondent relationships with mortgage companies throughout the country. Their mortgage correspondent might even qualify for an employee's discount,

On the servicing side, it is possible that credit systems such as Master Charge, Visa, or American Express could use their existing credit facilities for mortgage loan servicing.

no small benefit in such an agglomeration of businesses.

Even though the current regulation and statutory environment does not permit such a business empire to perform completely as hypothesized, this regulatory environment could change in response to various market changes. Even so, several organizations already have the capability to become integrated financial conglomerates operating in the 1980's mortgage market.

On the servicing side, it is possible that credit systems such as Master Charge, Visa, or American Express could use their existing credit facilities for mortgage loan servicing. Because of economies of scale in loan servicing, these nationwide systems could easily enter the mortgage loan servicing business and may even be able to reduce their servicing fee to such an extent that the mortgage banking business—as we know it today—would practically disappear.

In conjunction with the financial conglomerates being established, and as perhaps a prelude, we are seeing a radical agglomeration of real estate agencies. A recent study sponsored by the National Association of Realtors predicts that within 10 or 15 years, national franchises, such as a Century 21-type operation, and large publicly-owned companies, will handle as much as 80 percent of residential property transactions in major markets. It is also predicted that increased computerization of the industry will lead to more single-stop selling; combining brokerage, mortgage title, warranty, mortgage insurance, escrow, and home sale guarantee. National franchise opera-

tions could be aligned with a conglomerate to provide a natural loan origination tie-in to a full-scale mortgage operation. To the extent the vertical integration of a financial conglomerate is complete, the need for the traditional mortgage banking operation will be substantially reduced.

Securitization, agglomeration, vertical integration—you may be thinking that these ideas are far-fetched. But, they are not simple daydreams, and many have already occurred. And even our daydreams—one-stop shopping for most real estate needs via home video, a variety of forms of electronic transfer—might be innovations of the 90's. Although the changing environment of the mortgage banker is basically evolutionary, we have witnessed some revolutionary changes in recent years, such as the swift decline of life insurance companies and the rapid rise of Ginnie Mae as mortgage banking customers.

While this evolution is not a death knell for the mortgage banker, it is a challenge. The mortgage banker must be ready for, and part of, the changes that are taking place in the mortgage market if he or she is to survive.

Cost of leadership

During the 80's, mortgage bankers cannot sit idly by, watching the evolution of their industry; they must take the lead and get involved in all aspects of the mortgage market. Mortgage bankers could develop correspondent relationships with major financial conglomerates, and expand the use of mortgage-backed securities. There is much that mortgage bankers can do in the way of innovative

The mortgage banker must be ready for, and part of, the changes that are taking place in the mortgage market if he or she is to survive.

leadership to survive and even prosper throughout the coming decade. However, there is a cost of leadership.

The mortgage banking industry will have to develop a greater variety of capital sources and will have to provide professional management that can innovate, and at the same time, improve on existing techniques. Increased educational training and exposure to new ideas will prove to be the lifeblood of the mortgage banking industry over the coming years. As competition becomes more sophisticated, so must the mortgage banking industry—it will have to if it hopes for a bright future. □

Mortgage Market Trends

Prepared by MBA's Economics Department

March 20, 1980

Most housing market participants these days, reflecting on the sorry state of affairs in the housing market itself, are justifiably depressed. Today's real estate markets, which should be running at peak capacity to supply an ever-growing need, are instead being crushed under the weight of a restrictive monetary policy. Both construction and long-term mortgage interest rates bound to new records at least every other week; real consumer incomes continue to falter; housing sales volumes ebb; and "for sale" inventories, housing's "waistline," expand.

Seasonally adjusted new house sales have already dropped over 30 percent from their October 1978, 900,000-unit cyclical peak, to a 594,00-unit annual rate in January 1980. Over the same time span, the adjusted annual rate of inventories of houses for sale declined less than 2 percent, to a 400,000-unit level. This stickiness in inventory levels relative to fast falling sales has pushed the months' supply of houses at the current sales rate, a popular inventory measure, to an adjusted 7.9 months, recalling inventory levels last seen in early 1975.

The stickiness in the inventory of units for sale will give way in coming months as the production of new housing continues to slow. Housing starts, having stepped down from mid-1979's 1.8-million-unit annual rate to February's 1.3-million-unit level, still have not reached the basement, which may be below the one-million-unit level. While the construction slowdown will reduce the addition of units to the "for sale" inventory, the inventory measure linked to sales volumes is not likely to retreat so easily.

If there were any optimists left in the housing market, they would probably point to the 0.9 percentage point drop in the sales to inventory measure in January as the beginning of a return to lower inventory levels. This improvement in the inventory measure, however, may be as short-lived as its cause--January's surge in new home sales early in the month. Sales of existing housing, an important ingredient for a strong new house market, did not share new housing's January strength. In fact, existing home sales, at a seasonally adjusted annual rate, have fallen over 17 percent since October 1979, to a 3.2-million-unit rate in January--the lowest level in almost two years.

With mortgage rates moving to between 15 and 17 percent, it can only be expected that sales of both new and existing housing will continue to falter. To the extent that the deterioration in house sales outpaces the decline in housing inventories--a likely occurrence through mid-year, the inventory to sales ratio will maintain a relatively high profile.

Thomas R. Harter, Chief Economist

MORTGAGE MARKET TRENDS—APRIL 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES									HOUSING STARTS									Seasonally Adjusted Annual Rate			EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate			1 Unit	2 + Units	Non-Res.	Sold	Available For Sale	Months Supply at Current Rate							
	Total	1-4 Units	5 + Units	Total	1-4 Units	5 + Units	Total	1-4 Units	5 + Units	Total	1-4 Units	5 + Units													
1978	129	91	38	1,724	1,245	479	158	122*	36	2,111	1,661	450	118,608	64,884	14,024	39,700	299	53	422	8.0					
NOV	104	71	33	1,664	1,285	379	120	89	31	2,052	1,616	436	120,739	66,243	14,251	40,245	233	51	421	8.3					
DEC																									
1979																									
JAN	81*	56	25	1,324	959	365	88	64	24	1,727	1,298	431	112,999	61,407	13,208	38,384	243	53	411	7.8					
FEB	84*	57	27	1,321	878	443	84	64	20	1,469	1,090	379	115,191	62,308	14,663	38,220	261	58	399	5.3					
MAR	141	103	38	1,531	1,103	428	153	120	33	1,800	1,394	406	119,211	61,376	14,967	42,868	334	73	416	5.7					
APR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364	118,621	59,868	16,108	42,645	333	72	417	5.7					
MAY	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452	120,904	59,735	15,932	45,248	371	69	426	6.2					
JUN	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511	124,452	60,363	17,800	46,789	344	64	420	6.6					
JUL	138	104	34	1,528	1,136	392	164	130	34	1,764	1,352	412	125,507	60,554	17,196	47,757	343	66	421	6.3					
AUG	152	111	41	1,654	1,181	473	172	133	39	1,798	1,389	399	125,398	60,522	17,775	47,101	377	69	419	6.1					
SEP	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514	125,801	60,352	18,726	46,723	314	62	414	6.7					
OCT	141	96	45	1,542	1,084	478	169	122	47	1,710	1,268	442	127,858	60,158	18,467	49,533	329	55	416	7.6					
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428	127,546	58,799	19,081	49,666	255	39	412	10.5					
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383	131,089	57,995	20,774	52,300	197	34	405	11.8					
1980																									
JAN	75	52	23	1,264	882	382	73	57	16	1,424	1,137	287	132,236p	56,573p	21,439p	54,224p	209	43p	395p	9.1p					
FEB	77p	53p	24p	1,163p	803p	367p	80p	55p	25p	1,334p	880p	448p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.					
12 months																									
1979	1,513	1,072	441				1,748	1,319	429								3,701	714							
1978	1,800	1,313	487				2,020	1,558	462								3,863	817							
1977	1,689	1,246	443				1,988	1,574	414								3,547	820							
1976	1,280	980	300				1,538	1,250	288								3,002	647							

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

CONSTRUCTION STATUS

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES																STARTS																UNDER CONSTRUCTION					COMPLETIONS				
	Actual								Seasonally Adjusted Annual Rate								Actual								Seasonally Adjusted Annual Rate																	
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units																				
1978	16	28	48	36	196	355	670	503	17	43	62	49	179	543	852	537	1,971	900	471	167	134	33																				
NOV	13	16	39	36	198	327	612	527	14	19	47	39	236	436	773	607	1,310	848	462	170	136	34																				
DEC																																										
1979	10	8	35	29	189	198	500	437	8	7	45	28	257	258	782	430	1,270	813	457	129	100	29																				
JAN	6	10	37	31	140	229	506	446	6	7	42	29	180	213	647	429	1,223	776	447	126	7	29																				
FEB	12	25	62	42	143	294	646	448	12	26	75	40	190	368	780	262	1,216	777	439	140	113	36																				
MAR	14	31	51	43	142	297	543	455	15	34	65	47	171	356	692	531	1,228	793	435	142	111	31																				
APR	18	37	60	48	181	328	616	493	18	50	72	51	173	396	734	498	1,259	831	438	156	113	43																				
MAY	18	34	59	45	199	332	636	472	19	24	79	51	178	371	862	499	1,283	837	446	166	130	36																				
JUN	15	27	51	45	161	281	585	501	18	36	68	43	174	356	762	472	1,300	852	448	151	116	35																				
JUL	15	30	50	47	147	310	664	533	20	39	74	40	176	388	770	454	1,301	860	441	159	123	36																				
AUG	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553	1,283	850	433	181	125	36																				
SEP	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456	1,274	837	437	174	135	39																				
OCT	13	16	42	27	182	191	557	363	19	20	53	27	170	249	716	387	1,226	794	432	165	121	44																				
NOV	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399	1,142	719	423	174	139	35																				
DEC																																										
1980	8	8	39	23	116	221	577	350	5	6	40	22	183	221	683	337	1,094p	684p	410p	124p	93p	31p																				
JAN	6p	8p	40p	23p	133p	182p	536p	312p	2p	8p	47p	23p	70p	226p	706p	332p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.																				
FEB																																										
12 months	164	287	603	459					179	312	773	469								1,872	1,423	449																				
1979	194	388	668	550					200	451	824	545								1,868	1,486	382																				
1978	182	403	562	546					201	464	783	538								1,504	1,200	304																				
1977	150	317	400	412					170	401	569	400								1,245	1,004	241																				

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ¹	CONSTRUCTION LOANS ¹ ALL TYPES	FNMA		GNMA Current Securities Yield ¹	SELECTED SECURITIES				SPREADS (Basis Points)		
	FHA Opinion Survey			FHLBB Survey					FIMA Auction Yields on 4 mo. Commitments ¹			Aaa Utility New Issue		U.S. Gov't		Prime Commercial Paper	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't
	FHA New ¹	Conventional		Conventional		FHA VA Conv												
		New	Existing	New	Existing									10-yr	26-wk			
1978																		
OCT	9.93	9.95	9.95	9.83	9.90	9.750-10.125			10.053	10.198	9.33	9.17	8.64	8.493	8.98	76	69	
NOV	9.99	10.10	10.15	9.86	9.97	9.750-10.125	11.55		10.293	10.560	9.43	9.27	8.81	9.204	10.14	72	62	
DEC	10.16	10.30	10.30	10.02	10.08	9.875-10.125			10.508	10.825	9.61	9.28	9.01	9.397	10.37	88	60	
1979																		
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250			10.693	11.060	9.70	9.54	9.10	9.501	10.25	63	60	
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79		10.506	11.040	9.68	9.53	9.10	9.349	9.95	64	60	
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375			10.423	10.932	9.73	9.62	9.12	9.458	9.90	57	61	
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375			10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68	
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23		10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79	
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625			10.773	11.560	9.81	9.50	9.87	9.062	9.76	99	90	
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625			10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86	
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52		10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98	
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875			11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107	
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500			12.497	12.865	11.30	10.97	10.30	11.660	13.23	n.a.	100	
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.36		12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93	
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000			12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117	
1980																		
JAN	12.60	12.80	12.80	11.89	12.11	11.875-12.250			12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116	

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.
1978																				
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	150	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,000	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,237	126	771	232	177	269	93	3,185	362	123	1,663	1,017
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149	2,808	525	127	1,282	874
SEP	18,188	5,532	5,507	5,706	1,443	14,088	4,681	5,191	3,978	238	847	331	180	265	171	3,153	520	136	1,463	1,034
OCT	20,011	5,554	6,223	6,729	1,505	16,009	5,026	5,916	4,847	220	583	56	184	192	151	3,419	472	123	1,690	1,134
NOV	17,252	4,678	4,968	6,175	1,431	13,107	3,873	4,724	4,260	250	613	138	130	223	122	3,532	667	114	1,692	1,059
DEC	14,318p	4,535p	3,304p	5,018p	1,461p	10,417p	3,540p	3,112p	3,338p	427p	593p	129p	75p	251p	141p	3,308p	869p	117p	1,429p	891p

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

MORTGAGE INSURANCE

(Units in thousands; dollars in millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED UNITS			INSURED							
														Total		FHA (203)		VA		Private	
	Total	Mtg Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg Bankers	S&Ls	Banks ^a	Life Cos.	Total	VA	Private	Units	Am't	Units	Am't	Units	Am't	Units	Am't
1978																					
AUG	74,650	17,060	22,047	12,432	23,111	17,618	3,610	8,924	3,251	1,633	169	96	73	129	4,935	23	761	33	1,319	73	2,855
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710	138	73	65	102	3,949	18	584	22	801	62	2,484
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940	188	122	66	131	4,921	40	1,279	28	1,179	63	2,473
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,089	2,150	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382	157	102	55	98	4,027	25	855	32	1,415	41	1,753
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,203	7,730	2,489	2,676	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	80,082	16,335	20,930	11,575	31,242	18,010	4,858	7,992	2,889	2,271	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	75,796	15,875	19,029	11,346	30,546	12,819	3,967	4,741	2,416	1,695	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	69,706p	14,217p	16,007p	10,556p	28,926p	9,209p	3,154p	3,248p	1,912p	895p	79	50	29	91	4,117	20	769	31	1,531	40	1,817

SECONDARY MARKET ACTIVITY

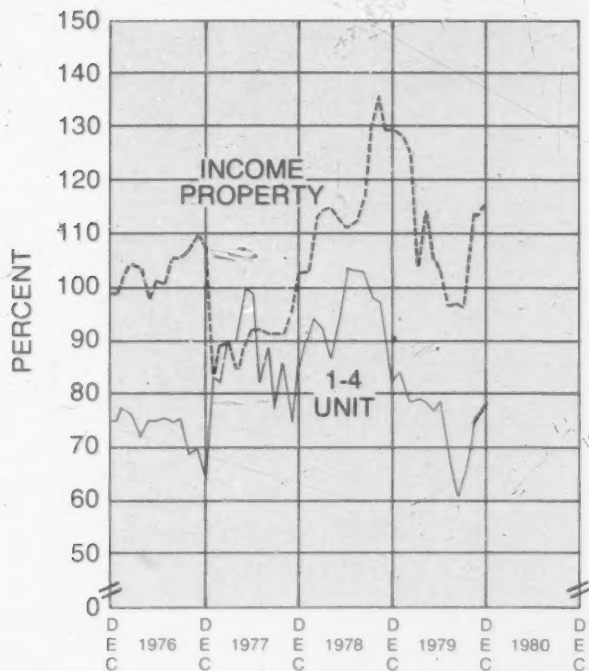
(Dollars in Millions)

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

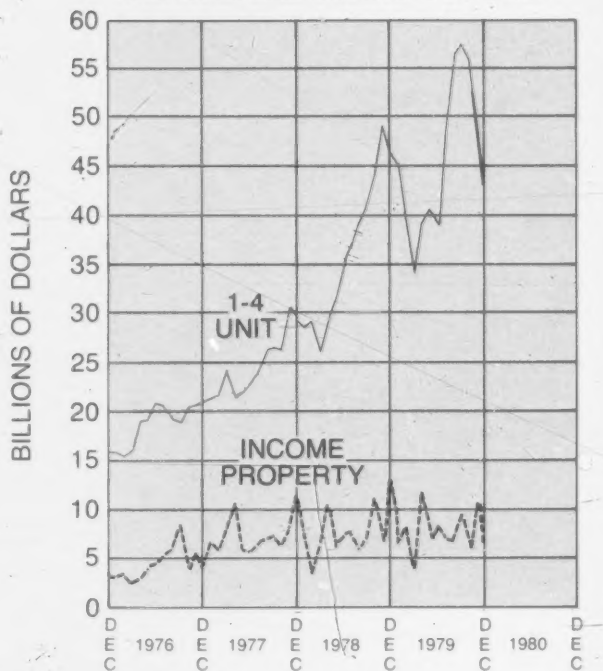
(Dollars in Millions)

Year and Month	(Dollars in Millions)										(Dollars in Millions)									
	FNMA					FHLMC			GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS				
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Pass-Through Securities		Construction				Land Loans	Total	1-4 Units	5 + Units	Non-res.	
	FHA VA Bid	Accept	Conventional Bid	Accept					Applications	Issued	Total	1-4 Units	5 + Units	Non-res.						
1978																				
OCT	1,965	832	1,157	496	502	514	791	370	3,580	1,762	600	260	160	180	60	4,320	1,530	1,180	1,610	
NOV	788	322	861	387	507	582	765	581	2,869	1,721	570	260	120	190	40	4,150	1,520	1,110	1,520	
DEC	627	320	417	221	319	290	598	340	3,295	1,381	620	270	180	170	40	4,190	1,550	1,130	1,510	
1979																				
JAN	305	155	114	58	132	327	498	321	2,925	1,426	550	250	100	200	50	4,400	1,700	1,140	1,560	
FEB	211	161	63	45	89	295	401	291	2,892	1,304	420	230	80	110	30	4,130	1,640	960	1,530	
MAR	508	284	145	114	71	427	350	116	2,680	1,453	470	280	80	110	40	4,620	1,700	1,150	1,770	
APR	1,323	638	662	364	517	492	358	363	5,907	1,408	570	300	120	150	50	4,250	1,610	1,230	1,410	
MAY	426	185	459	214	503	601	560	572	3,009	1,673	560	330	100	130	60	3,910	1,820	740	1,350	
JUN	220	100	358	195	277	462	447	182	3,621	1,860	700	450	110	140	50	4,460	2,060	1,120	1,280	
JUL	133	70	94	70	160	517	518	320	6,211	2,032	594	312	121	161	59	4,010	1,870	1,070	1,270	
AUG	162	83	246	184	184	581	636	354	5,105	2,933	734	339	151	244	81	4,553	2,072	1,069	1,412	
SEP	1,421	600	527	326	343	437	537	347	4,012	2,640	723	312	86	325	152	4,897	2,101	679	2,117	
OCT	943	1,130	1,050	431	828	504	552	531	6,509	2,639	784	307	106	371	45	4,487	1,636	1,224	1,627	
NOV	558	265	366	190	0	221	458	186	7,410	3,250	640	248	144	248	44	4,632	1,608	1,344	1,680	
DEC	649	249	413	152	0	199	403	211	3,539	1,894	668p	256p	115p	297p	39p	4,343p	1,739p	923p	1,681p	
1980																				
JAN	516	232	443	247	26	296	279	180	4,265	2,611	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	

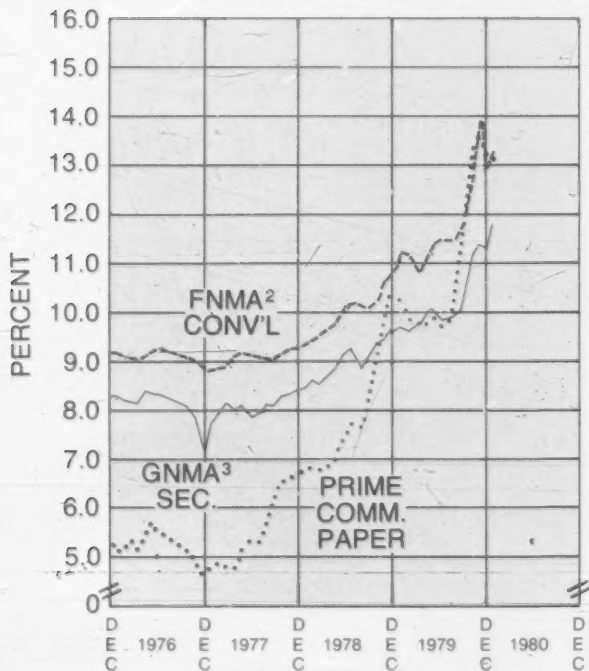
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



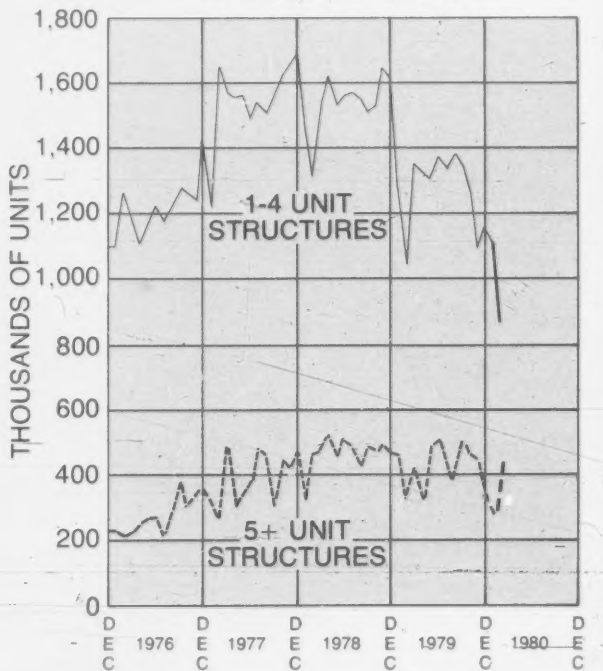
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED⁴



SELECTED YIELDS



HOUSING STARTS⁴



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.
4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA—ECONOMICS DEPARTMENT

Mortgage Banker

MAY 1980

COMPUTERS
IN
MORTGAGE
BANKING

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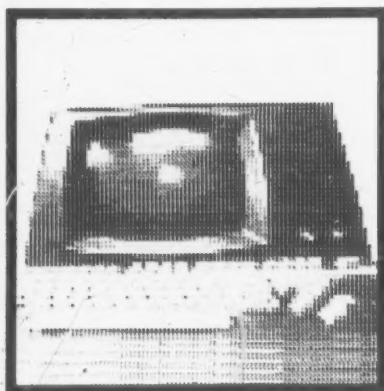
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Washington, D.C. 20005
(202) 785-8333



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Mortgage Market Trends

Prepared by MBA's Economics Department

April 18, 1980

With the general economy slipping into recession, a number of sectors—most notably housing—have already begun a rapid downward slide. The recently released housing starts data for March showed a 21.8 percent drop from the previous month. The seasonally adjusted annual rate of 1.04 million units was the lowest rate recorded in nearly five years and represents the second-largest monthly decline on record. Building permits, a forerunner of future activity, also dropped sharply, leading to the conclusion that the slump will continue to worsen.

As a result, it seems reasonable to expect housing starts to fall below the one million unit level of annualized activity in 1980's second quarter. However, as we move through the latter half of the year, the situation should begin to ease slightly. Thus, we may expect to see housing starts in the neighborhood of 1.1 to 1.2 million units for the year, depending on the fate of the Administration-backed proposal to subsidize mortgage loans through a modified FHA Section 235 program.

With the economy perceptibly losing steam, long-term interest rates should begin a gradual decline, although not at the same pace as the retreat of short-term rates. Thus, mortgage interest rates should return to the 12 to 13 percent range by year-end as a result of sagging demand.

House sales should fall to the same depths as house construction this year. In fact, sales of both new and existing housing may be off 30 to 35 percent from last year's volumes. Resourceful buyers and sellers alike are finding ways to accomplish their sales transactions. Assumptions, seconds, wrap-arounds, and any number of variations of the sales transaction are proliferating to facilitate the continuance of house sales activity this year.

In line with the general weakening in the housing market, 1980 is likely to see the nation's average house price held to a 10 percent increase, compared with the 15 percent increase experienced last year. But, while the increase in house prices may be held to 10 percent this year, it is reasonable to expect rampant price increases to return to the housing market within a year or so when a stronger economy brings the return of the effective purchasing power of a burgeoning population.

Reflecting both the slowdown in sales volume and the moderation in price increases, loan origination volumes should be off between 30 and 40 percent this year. However, mortgage bankers' declining volumes are likely to reflect the low end of this range as their diversity of loan sources will actually allow them to expand their share of origination volumes relative to other major lenders. Consequently, mortgage companies should expect a 25 to 35 percent drop in their one-to-four-unit originations.

Frances E. Wrocklage, Senior Economist

MORTGAGE MARKET TRENDS—MAY 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS										EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate								Seasonally Adjusted Annual Rate		
	1-4		5+	1-4		5+	1-4		5+	1-4		5+	1		2+	Non-Res.				
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Unit	Units	Res.				
1978	104	71	33	1,664	1,285	379	120	89	31	2,052	1,616	436	120,739	66,243	14,251	40,245	233	51	421	8.3
DEC																				
JAN	81	56	25	1,324	959	365	88	64	24	1,727	1,296	431	112,999	61,407	13,208	38,384	243	53	411	7.8
FEB	84	57	27	1,321	878	443	84	64	20	1,469	1,090	379	115,191	62,308	14,663	38,220	261	58	399	5.3
MAR	141	103	38	1,531	1,103	428	153	120	33	1,800	1,394	406	119,211	61,376	14,967	42,368	334	73	416	5.7
APR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364	118,621	59,868	16,108	42,645	333	72	417	5.7
MAY	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452	120,904	59,735	15,932	45,248	371	69	426	6.2
JUN	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511	124,452	60,363	17,300	46,789	344	64	420	6.6
JUL	138	104	34	1,528	1,136	392	164	130	34	1,764	1,352	412	125,507	60,554	17,196	47,757	343	66	421	6.3
AUG	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399	125,398	60,522	17,775	47,101	377	69	419	6.1
SEP	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514	125,801	60,352	18,726	46,723	314	62	414	6.7
OCT	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442	127,858	60,158	18,167	49,533	329	55	416	7.6
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428	127,499	58,752	19,081	49,666	255	41	409	10.0
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383	131,138	58,064	20,744	52,300	197	34	403	11.8
1980																				
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,129	290	133,099	56,790	20,953	55,356	209	43	393	9.2
FEB	76	54	22	1,142	801	341	80	55	25	1,332	889	443	129,792p	54,231p	21,614p	53,937p	220	42p	384p	9.0p
MAR	83p	57p	26p	941p	631p	310p	85p	59p	26p	1,041p	699p	345p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
12 months	1,513	1,072	441				1,748	1,319	429								3,701	714		
1979	1,800	1,313	487				2,020	1,558	462								3,863	817		
1978	1,689	1,246	443				1,988	1,574	414								3,547	820		
1977	1,280	980	300				1,538	1,250	288								3,002	647		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

CONSTRUCTION STATUS

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS			
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate										
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	
1978	13	16	39	36	198	327	612	527	14	19	47	39	236	436	773	607	1,310	848	462	170	136	34	
DEC 1979	10	8	35	29	189	198	500	437	8	7	45	28	257	258	782	430	1,270	813	457	129	100	29	
JAN	6	10	37	31	140	229	506	446	6	7	42	29	180	213	647	429	1,223	776	447	126	97	29	
FEB	12	25	62	42	143	294	646	448	12	26	75	40	190	368	780	462	1,216	777	439	149	113	36	
MAR	14	31	51	43	142	297	543	455	15	34	65	47	171	356	692	531	1,228	793	435	142	111	31	
APR	18	37	60	48	181	328	616	493	18	50	72	51	173	396	734	498	1,259	831	438	156	113	43	
MAY	18	34	59	45	199	332	636	472	19	24	79	51	178	371	862	499	1,283	837	446	166	130	36	
JUN	15	27	51	45	161	281	585	501	18	36	68	43	174	356	762	472	1,300	852	448	151	116	35	
JUL	15	30	50	47	147	310	664	533	20	39	74	40	176	388	770	454	1,301	860	441	159	123	36	
AUG	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553	1,283	850	433	181	125	36	
SEP	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456	1,274	837	437	174	135	39	
OCT	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387	1,226	794	432	165	121	44	
NOV	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	389	1,140	717	423	174	139	35	
DEC 1980	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339	1,088	678	410	125	94	31	
JAN	5	8	39	24	125	178	524	315	2	8	47	23	67	228	703	334	1,050p	650p	400p	121p	86p	35p	
FEB	10p	11p	39p	22p	125p	132p	430p	253p	7p	12p	45p	21p	104p	185p	507p	245p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
MAR																							
12 months	164	287	603	459					179	312	773	469									1,872	1,423	449
1979	194	388	668	550					200	451	824	545									1,868	1,486	382
1978	182	403	562	546					201	464	783	538									1,504	1,200	364
1977	150	317	400	412					170	401	569	400									1,245	1,004	241

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ¹	CONSTRUCTION LOANS ² ALL TYPES	FNMA ³	GNMA Current Securities Yield	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey							Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA Minus 10-yr Gov't
												10-yr	26-wk			
	FHA New ⁴	Conventional		Conventional												
	New	Existing	New	Existing												
1978																
NOV	9.99	10.10	10.15	9.86	9.97	9.750-10.125	11.55	10.293	10.560	9.43	9.27	8.81	9.204	10.14	72	62
DEC	10.16	10.30	10.30	10.02	10.08	9.875-10.125		10.508	10.825	9.61	9.28	9.01	9.347	10.37	88	60
1979																
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.34	9.10	9.501	10.25	63	60
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79	10.506	11.040	9.68	9.53	9.10	9.349	9.95	64	60
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.80	57	61
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98
SEP	12.27	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.060	13.23	n.a.	100
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	n.a.	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nontresidential				
	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.
1978																				
SEP	17,586	4,080	6,165	6,385	956	13,778	3,510	5,867	4,352	49	662	100	182	278	102	3,146	470	116	1,755	805
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,700	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	867	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,813	5,237	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	20,300	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149	2,808	525	127	1,282	874
SEP	18,188	5,532	5,507	5,706	1,443	14,088	4,681	5,191	3,978	238	847	331	180	265	171	3,153	520	136	1,463	1,034
OCT	20,011	5,554	6,223	6,729	1,505	16,009	5,026	5,916	4,847	220	583	56	184	192	151	3,419	472	123	1,680	1,134
NOV	17,252	4,678	4,968	6,175	1,431	13,107	3,873	4,724	4,260	250	613	138	130	223	122	3,532	667	114	1,692	1,059
DEC	14,318p	4,535p	3,304p	5,018p	1,461p	10,417p	3,540p	3,112p	3,338p	427p	593p	126p	75p	251p	141p	3,308p	869p	117p	1,429p	893p

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.
1978										
AUG	74,650	17,060	22,047	12,432	23,111	17,618	3,810	8,924	3,251	1,633
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,421	1,710
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,089	2,150
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683
1979										
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,262	1,975
FEB	72,130	16,490	19,038	14,637	24,965	13,580	3,630	6,076	2,234	1,640
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382
APR	76,264	18,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,204	7,740	2,489	2,676
OCT	80,082	16,335	20,930	11,575	31,242	18,010	4,858	7,992	2,889	2,271
NOV	75,796	15,875	18,029	11,346	30,546	22,819	3,967	7,471	2,416	1,695
DEC	69,706p	14,217p	16,007p	10,556p	28,926p	22,209p	3,154p	3,248p	1,912p	895p

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS				INSURED							
					Total				FHA (203)			
	Total	VA	Private		Units	Amount	Units	Amount	Units	Amount	Units	Amount
1978												
AUG	169	96	73		129	4,935	23	761	33	1,319	73	2,855
SEP	138	73	65		102	3,949	18	584	22	881	62	2,484
OCT	188	122	66		131	4,931	40	1,279	28	1,179	63	2,473
NOV	152	94	58		121	4,802	17	574	27	1,116	77	2,412
DEC	121	72	49		93	3,085	11	388	28	1,177	54	2,140
1979												
JAN	118	79	39		109	4,193	29	963	33	1,419	47	2,011
FEB	114	74	40		93	3,861	27	936	31	1,367	35	1,558
MAR	157	102	55		98	4,023	25	855	42	1,415	41	1,753
APR	169	106	63		90	3,741	19	665	24	1,075	47	2,001
MAY	185	116	69		102	4,246	23	806	24	1,082	55	2,358
JUN	166	103	63		103	4,138	24	846	24	1,096	55	2,396
JUL	170	112	58		117	4,996	29	1,058	31	1,423	57	2,515
AUG	177	118	59		116	5,042	25	912	35	1,695	56	2,435
SEP	150	100	50		104	4,646	20	744	39	1,910	45	1,992
OCT	155	98	57		104	4,580	29	1,092	22	1,100	53	2,308
NOV	116	76	40		102	4,493	27	1,034	29	1,391	46	2,098
DEC	79	50	29		91	4,117	20	769	31	1,531	40	1,817

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

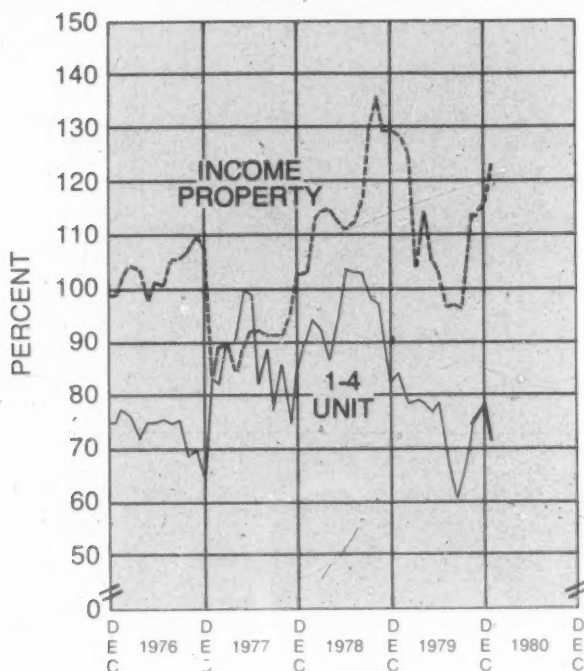
Year and Month	FNMA				FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby			Pass-Through Securities	
	FHA VA Bid	VA Accept	Conventional Bid	Accept	Comm	Pure	Sold	Applications	Issued
1978									
NOV	788	322	861	387	507	582	765	581	2,869
DEC	627	320	417	221	319	290	598	340	3,295
1979									
JAN	305	155	114	58	132	327	498	321	2,925
FEB	211	161	63	45	89	295	401	291	2,392
MAR	508	284	145	114	71	427	350	116	2,680
APR	1,323	638	662	364	51	492	358	363	5,907
MAY	426	185	459	214	503	601	560	572	3,009
JUN	220	100	358	195	277	462	447	182	3,621
JUL	133	70	94	70	160	517	518	320	6,211
AUG	162	83	246	184	184	581	636	354	5,105
SEP	1,421	690	527	326	343	437	537	347	4,012
OCT	2,943	1,130	1,050	431	828	504	552	531	6,509
NOV	558	265	366	190	0	221	458	186	7,410
DEC	649	249	413	152	0	199	403	211	3,539
1980									
JAN	516	232	443	242	26	296	279	180	4,265
FEB	1,169	564	412	148	225	197	248	207	2,178

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

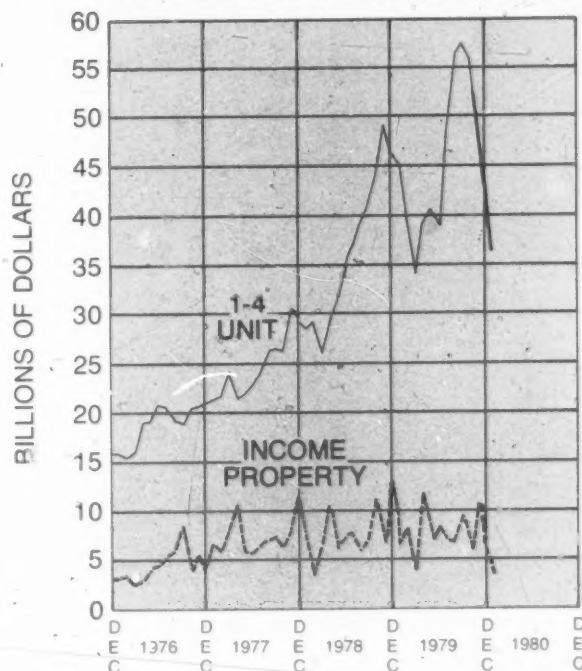
(Dollars in Millions)

DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS				
Year and Month	Construction				Land Loans	Total	1-4 Units	5+ Units	Non-res.
	Total	1-4 Units	5+ Units	Non-res.					
1978									
NOV	570	260	120	190	40	4,150	1,520	1,110	1,520
DEC	620	270	180	170	40	4,190	1,550	1,130	1,510
1979									
JAN	550	250	100	200	50	4,400	1,700	1,140	1,560
FEB	420	230	80	110	30	4,130	1,640	960	1,530
MAR	470	280	80	110	40	4,620	1,700	1,150	1,770
APR	570	300	120	150	50	4,250	1,610	1,230	1,410
MAY	560	330	100	130	60	3,910	1,820	740	1,350
JUN	700	450	110	140	50	4,460	2,060	1,120	1,280
JUL	594	312	121	161	50	4,010	1,870	870	1,270
AUG	734	339	151	244	81	4,553	2,072	1,069	1,412
SEP	723	312	86	325	152	4,897	2,101	679	2,117
OCT	784	307	106	371	25	4,487	1,636	1,224	1,627
NOV	640	248	144	248	44	4,632	1,608	1,344	1,680
DEC	647	240	113	294	46	4,141	1,543	937	1,661
1980									
JAN	603p	233p	100p	270p	26p	4,581p	1,644p	1,249p	1,688p
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

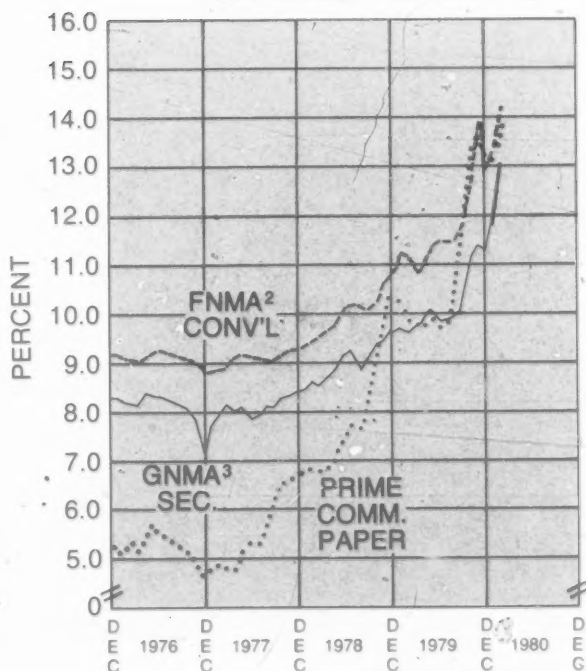
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



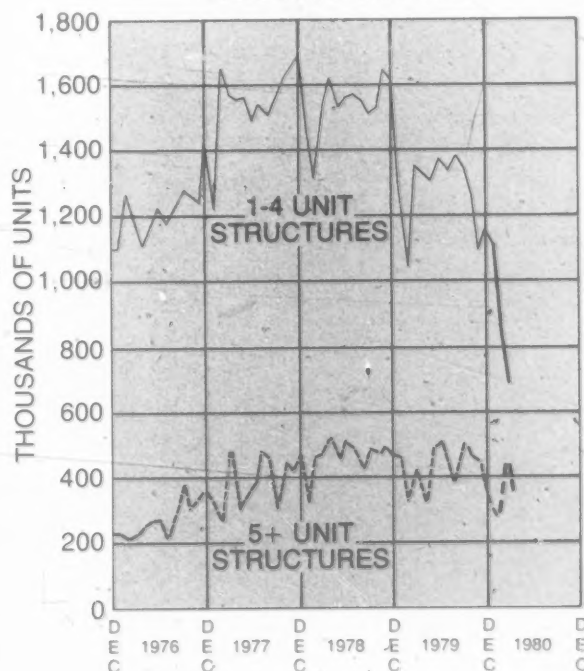
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED⁴



SELECTED YIELDS



HOUSING STARTS⁴



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS. MULTIPLIED BY 100.

2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.

3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.

4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT

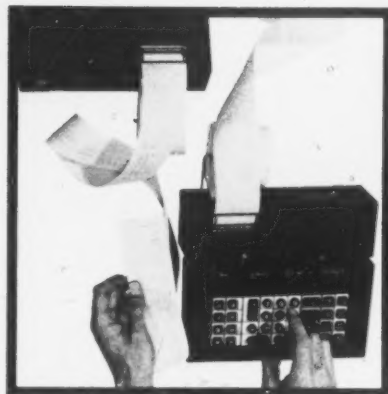
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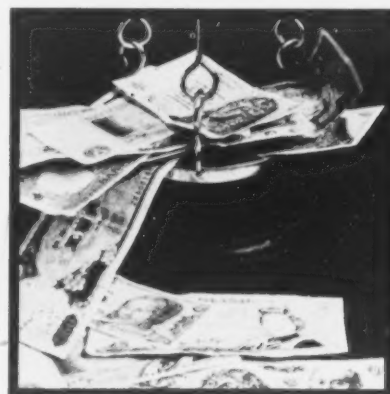
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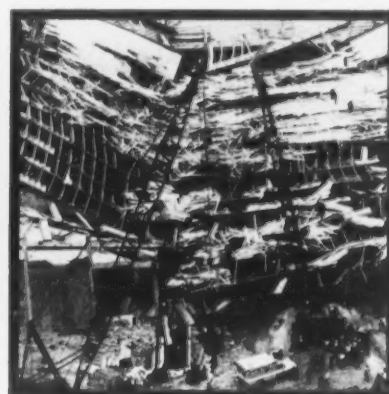
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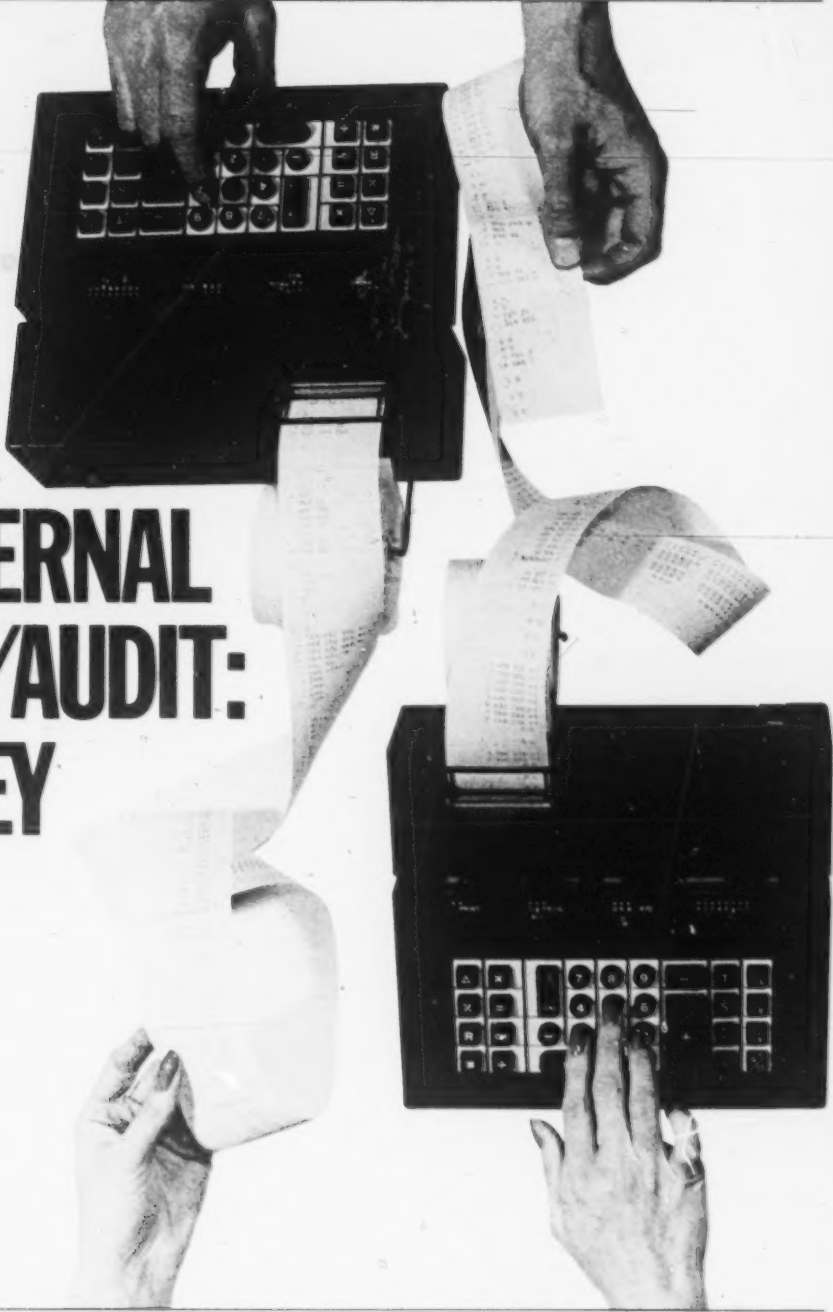
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INTERNAL CONTROL/AUDIT: A SURVEY

Hyde C. Perce and
Donald R. Hague

The topic of internal audit and control systems has been a major agenda item for American businessmen over the last several years. Reflecting society's concern that business activities be reviewed and business-

Mr. Perce is vice president and treasurer, mortgage loan operations, Allstate Enterprises Mortgages, Deerfield, Illinois. Mr. Hague is associate director, MBA Government Agency Relations.

persons be held accountable for their actions, the Foreign Corrupt Practices Act of 1977 mandated that an internal audit department be part of a publicly-held company's operations. The impetus for this Act, of course, developed from political investigations connected with Watergate and the disclosure that payoffs and bribes were a frequent part of American business, especially overseas.

Mortgage bankers have long recognized the need for internal control systems, although, because of budget constraints, they often were not able to afford the expense of a full-time auditor.

Indeed, the essential nature of the business, with its dispersion of branch offices, its foundation in cash or near-cash transactions, and the need to decentralize decision authority to compete in changing markets requires a well-developed system of internal control and review to ensure the viability of the firm.

In 1976, recognizing the need for better internal control and audit systems, Jerome Howard, then-MBA president, established the Joint Committee on Internal Control. Walter B. Williams, former MBA president, served as chairman of the committee. This group was formed to

Table 1
Responses From Regular Members,
by Type of Company

	Number	Percent
Independent companies	163	51
Companies affiliated with commercial banks	83	26
Companies affiliated with savings and loans	19	6
Other	41	13
Company Type Not Specified	12	4
Total—All Regular Members	318	100

tables so that the reader can easily see how internal audit and control systems have developed within the industry.

The survey was conducted to answer four basic questions:

1. How many mortgage banking companies presently have an internal audit program?
2. How long has the program been in operation?
3. How much does the program cost?
4. If a company does not have an internal audit program, does it have some form of quality control?

In order to keep members aware of the Association's efforts, all 3,400 MBA members received the questionnaire. Responses were tabulated only for the 805 target firms—regular members who pay dues based on both originated and serviced mortgages. The response from this group of target firms was as follows:

Surveys sent to Regular Members	805
Number of responses received	318
Response Ratio	40%

This response group totalled 318 regular members, or 40% of the target group, a good response rate by statistical standards. Table 1 shows the distribution of the 318 responses by company type.

Existence of audit programs

One of the survey's key questions was "Does your company answer to an internal auditor or department?" Those responding to the survey could answer either, "yes" or "no." Of the total 318 responses, 144 firms, or 45 percent, said yes, and the remaining 174, or 55 percent, said no. Those respondents who indicated they did have an internal auditor or department were then asked to supply further data, such as the length of time they had had such a program, staffing levels in the internal audit department, and the budget for the program.

Those who said "no," were asked if their company had some kind of quality control program, and how extensive the program was. The "no" responses are analyzed at the end of this article.

Table 2 shows the results of this first key question by type of company responding. As the table indicates, independent companies (which tended to be smaller than the others) were the least likely (27 percent) to have audit programs. By contrast, 78 percent of companies affiliated with commercial banks and 58 percent of those affiliated with savings and loans said they had internal audit departments. This difference be-

Table 2
Existence of Audit Programs By Type of Company

Company Type	Total Responses	Yes	No	Percent Yes
Independent Company	175	44	131	27
Commercial Bank Affiliate	83	65	18	78
S&L Affiliate	19	11	8	58
Other	41	24	17	58
Totals	318	144	174	45%

develop educational material that would help MBA members establish internal control systems and audit functions.

The next step in MBA's efforts toward internal control and audit systems was the publication of "Internal Control for Mortgage Bankers." This 1977 monograph was written with the help of the Internal Control Subcommittee of MBA's Internal Management Committee and other interested persons.

Over the last three years, MBA has continued its efforts to encourage the development, and/or improvement of internal audit and control systems. The asso-

ciation sponsored seminars in both 1978 and 1979 to give members a "how-to" format for developing and improving these critical functions.

Another effort was launched last year, when the Internal Control Subcommittee of MBA's Internal Management Committee initiated a special study called The Internal Control/Audit Survey questionnaire. At the request of 1979 MBA president Claude Pope, members throughout the country responded to a series of detailed questions. These responses were then tabulated and are described in this article. The article is accompanied with

Table 3
Existence of Audit Programs By Size and Type of Company

Company Type and Response	Size of Servicing Portfolio (Million \$)						Size Not Specified
	Total	Under \$100	\$100 to \$200	\$200 to \$400	\$400 to \$800	Over \$800	
<i>All Regular Members</i>							
Total Number							
Yes	144	21	15	29	29	49	1
No	174	77	36	39	9	6	7
	<u>318</u>	<u>98</u>	<u>51</u>	<u>68</u>	<u>38</u>	<u>55</u>	<u>8</u>
Percent							
Yes	45	21	29	43	76	89	13
No	55	79	71	57	24	11	87
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<i>By Company Type</i>							
Independent Company							
Yes	44	15	3	6	8	12	0
No	131	61	29	27	7	2	5
	<u>175</u>	<u>76</u>	<u>32</u>	<u>33</u>	<u>15</u>	<u>14</u>	<u>5</u>
Commercial Bank Affiliate							
Yes	65	1	10	13	16	24	1
No	18	6	4	5	1	1	1
	<u>83</u>	<u>7</u>	<u>14</u>	<u>18</u>	<u>17</u>	<u>25</u>	<u>2</u>
Savings & Loan Affiliate							
Yes	11	3	0	4	2	2	0
No	8	3	2	3	0	0	0
	<u>19</u>	<u>6</u>	<u>2</u>	<u>7</u>	<u>2</u>	<u>2</u>	<u>0</u>
Other							
Yes	24	2	2	6	3	11	0
No	17	7	1	4	1	3	1
	<u>41</u>	<u>9</u>	<u>3</u>	<u>10</u>	<u>4</u>	<u>14</u>	<u>1</u>

tween the independent and the affiliated firms probably reflects the heavy regulation applied to both commercial banks and savings and loans, making internal audit more of a necessity for them.

Next, the yes and no answers were divided according to the size of servicing

portfolio and type of company. This was done to see how the size and type of the firm affected the likelihood of its having an internal audit program. As expected, Table 3 shows that the larger the company, the more likely it is to have an audit program. The table also shows that the

\$400 million portfolio size marked the midpoint; more than half of the firms over that size had an internal audit program. Even above that level, however, the independent companies were much less likely to have an audit program.

Many of the survey's respondents

Table 4
Internal Auditors in
Respondent Companies
Affiliated with Other
Firms

Type of Parent Company	Respondent Company Internal Auditors	
	Own Staff	Parent
Commercial Bank	26	40
Savings & Loan	2	8
Other	13	11
	41	59

were mortgage companies affiliated with another firm such as a commercial bank or savings and loan. These affiliate firms often said that the internal audit department was not part of their company, but part of the parent entity. Because of this,

the affiliate firms were surveyed to see whether the internal audit staff was part of the mortgage company or was part of the parent company. The results are shown in Table 4.

Survey responses were analyzed to determine how long mortgage bankers have had their audit programs (Table 5)

Table 5
Year Internal Audit Department was Organized

Type of Company	YEAR				Date Not Indicated
	1972 or Earlier	1973- 1974	1975- 1976	1977- 1979	
Independent Company	4	4	8	27	1
Bank or Savings & Loan Affiliate	4	4	6	14	0
Other	1	0	4	8	0
	9	8	18	49	1

and how large these internal audit programs are (Table 6).

Cost of program

Understandably, the amount of funds that can be devoted to an internal audit program depends on the size of the firm. Table 7 shows that most of the small

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Table 6
Number of Companies With Own Internal Audit Staff
Number of Audit Employees by Size of Servicing Portfolio

Number of Employees	Size of Servicing Portfolio (Million \$)					
	Total	Under \$100	\$100-\$200	\$200-\$400	\$400-\$800	Over \$800
1-2	57	11	5	12	15	14
3-5	22	2	—	1	2	17
6-8	2	—	—	—	—	2
More than 8	1	—	—	—	—	1
Total	82	13	5	13	17	34

Table 8
Quality Control Programs in Firms with no Internal Audit Program

	Number	Percent
Yes	108	62
No	63	36
No Response	3	2
	174	100

Table 9
Policy Statement Signed

	Number	Percent
Yes	35	35
No	66	65
	101	100

Table 7
Number of Companies Reporting Annual Budgets of Internal Audit Departments By Size of Servicing Portfolio

Annual Budget	Size of Servicing Portfolio (Million \$)					
	Total	Under \$100	\$100-\$200	\$200-\$400	\$400-\$800	Over \$800
Under \$30,000	35	10	4	9	7	5
\$30,000-\$50,000	12	—	1	1	5	5
\$50,000-\$100,000	19	1	—	—	3	15
\$100,000+	4	—	—	—	—	4
	70	11	5	10	15	29

Table 10
Re-Verify Items

	Number	Percent
All Items	70	67
Some	24	23
None	11	10
	105	100

companies spent less than \$30,000 a year on their internal audit program, while more than half of the large firms had budgets over \$50,000.

Quality control programs

As mentioned earlier, 55 percent or 174 of the respondents said that they did not have an internal auditor or internal audit department. These firms were asked to answer additional questions in the final section of the survey. This final section asked whether the firm had a

quality control program and whether it had considered adding an internal audit program. As Table 8 indicates, 108 of the firms (62 percent) had some kind of quality control program, even if they did not have an internal audit program as such. Also, several companies mentioned that an executive committee or certain officers review loan origination applications, documents, and loan files.

To assess the extent of these quality control programs, the 108 firms were then asked some specific questions about

review procedures. The two questions were as follows: Do you have a policy statement signed by all origination employees? and As part of the quality control programs, do you re-verify employment, credit reports, bank deposits, and appraisals? Tables 9 and 10 analyze the responses of these firms.

The 55 percent without an internal audit program were also asked why they did not have one and if they planned to begin one. In response, a large portion of these firms mentioned one of two prima-

ry constraints: their small size or the cost of such a department in relation to size. Typical comments were "need more loan volume to justify" and "future growth or decentralization may make this necessary."

Nineteen companies indicated they would implement an internal audit department if required to do so by investors, outside CPAs, parent companies, or by regulation. Several other companies stated they would implement a program if irregularities were occurring or if they became involved in legal proceedings.

Also, many companies said that they had considered setting up an audit department but had not as yet done so. In fact, twenty-three firms presently without audit departments stated that they planned to establish such a department within one year.

Summary

In the 318 responses received from regular MBA members, 144 replied that they did have an internal auditor or department. If these responses are added to the 108 firms that indicated they did have a quality control program, we see that 252 of the responding firms (79 percent) had an internal control program of some type. Although these programs varied widely in scope and activity, this response reveals the strong interest mortgage bankers have in internal control and their recognition of the role control systems can have in their firms.

The fact that many smaller firms stated that they have an internal auditor indicates that the cost of a program may not be quite the problem that some firms without internal auditors imagine. Perhaps the firms with internal auditors are more aware of the business efficiencies an internal audit program can produce, as well as the assurance such a program can provide to top management that its policies are being followed.

There is no doubt that, although mortgage bankers have long been aware of the usefulness of a system of internal controls, the creation of a separate internal audit department within a company is a fairly recent phenomenon. However, as this survey showed, internal audit is a growing trend within the industry and is becoming increasingly recognized as an integral part of the standard operations of a mortgage banking company.

For several years, MBA, its Internal Management Committee, and its Internal Control Subcommittee have encouraged the industry to develop and improve internal audit and control systems. The survey indicates that their efforts have paralleled the interests of the industry. □

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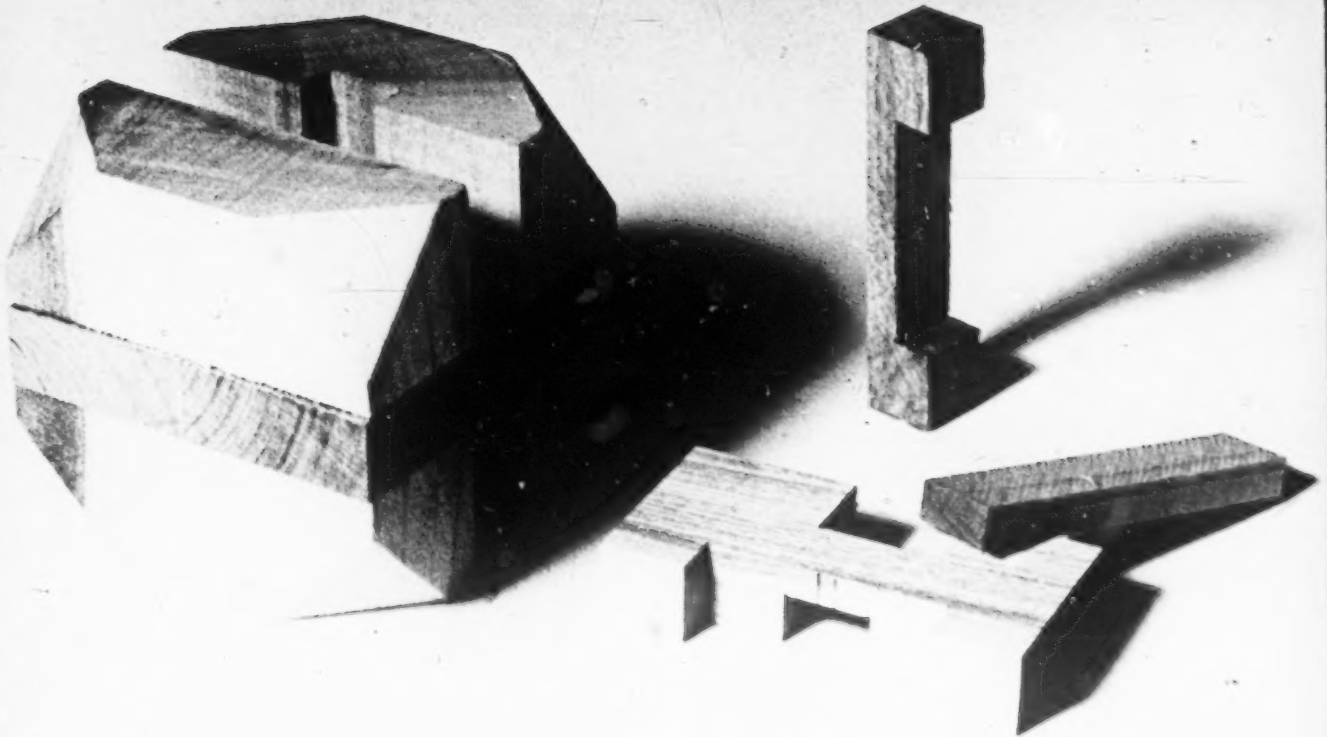
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Diversification Planning: A Schematic



**Carl J. Hanson and
Lawrence J. Trautman**

A casual perusal of MBA's Membership directory will quickly demonstrate that many mortgage bankers have pursued diversification in numerous ways. Many mortgage banking firms are still guided by their entrepreneurial founder and are generally alert to potential shifts in both the markets they serve and their mix of services offered. Through mergers and acquisitions, many

Mr. Hanson is vice president, Urban Lending Division, Investor's Mortgage Service Co., Los Angeles, California. Mr. Trautman is Chairman, OZMA Corporation, Washington, D.C.

firms have successfully diversified both internally and externally.

What is diversification?

Diversification is not new to the mortgage banking industry. While a "conceptually pure," all inclusive definition of the mortgage banking function is often difficult to obtain, a real life example of a mortgage banker engaged solely in mortgage banking is even harder to find. An unpublished study, using data primarily derived from MBA's 1978 *Membership Directory*, found that mortgage banking companies frequently engage in numerous activities outside the areas of loan production and servicing. Other business activities included insurance sales, property management, real estate sales, con-

struction lending, land development, real estate investment, joint ventures, syndications, engineering services, land planning, and urban renewal.¹ Most diversified firms were found to remain in the service industries, often expanding existing functions. Thus, during recent years many mortgage banking companies have broadened their product lines from providing hazard insurance to offering full life insurance lines, property and casualty, and assorted special insurance programs; expanded the appraising function into real estate consulting and feasibility studies; expanded their income property operations to include corporate attorneys who structure sale and leasebacks and joint ventures and provide financial consulting; and developed the service de-

partment into a profit center by selling data processing, escrow, and accounting services to other firms. Table 1 relates the various business activities reported by those firms studied

Why diversify?

Service firms can grow by additional market penetration, by positioning in expanding markets, or by diversification. Diversification will probably only make sense in a situation where company management is not overly preoccupied with the day-to-day management of the firm (putting out current brushfires) and is strong enough to commit the necessary resources (time, talent, and money) to achieve its goals. Productivity within the service sector generally lags behind the manufacturing sector. The efficient application of systems techniques to the mortgage banking business offers prospects for substantial gains in operating efficiencies.² Therefore, many opportunities are available to a mortgage banker seeking to diversify, particularly into other "service oriented" lines of business.



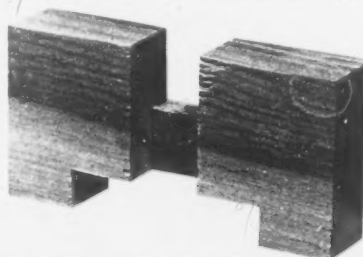
Diversification does present some pitfalls, and these will be discussed later. External or internal diversification also offer benefits, as summarized by George Steiner.³ Diversification can help a business to:

- Avoid dependence on one line of services. Tomorrow will surely differ from today and many of today's services will become obsolete.
- Achieve sales and profit stability. A broadened base of services and markets will allow profitable services to offset losses from temporarily less profitable services.
- Increase growth of sales and profit.
- Obtain technical knowhow. This is a common motive for the joint-venture or acquisition.
- Achieve fixed cost reduction through intensive use of marketing or production systems.
- Gain broadened geographical distribution. This can occur through branching, horizontal integration, or the franchised approach shown on the matrix as concentric diversification.
- Accrue attractive tax advantages from acquiring other firms with a tax loss carry forward. Currently, tax laws favor

Table 1
Diversification by Mortgage Companies
Number of firms studied: 557

Categories of Diversification	Number of firms	Percent of firms
Business or Agricultural loans	55	10%
Construction loans	137	26
Data processing services	19	4
Escrow services	13	3
Fee appraisal services	177	34
Financial or Real Estate consulting	40	8
Home improvement or consumer loans	12	2
Insurance sales	318	60
Joint ventures, syndications or r.e. investment	51	10
Land development	122	23
Leasing	47	9
Property management	260	49
Real estate sales	249	17
Sale-leaseback purchases	8	2
Other activities (reported by less than 1% of firms studied)		
Accounting services	Estate planning	Realtor training school
Bond sales	Investment banking	Tax service
Building insurance	Land planning	Travel agencies
Engineering services	Mobile home loans	Title services
Equipment leasing	Private placements of corporate debt	Trust management
Equity fund management		Urban renewal

Source: Mortgage Bankers Association of America.
Cecil E. Sears, III, "Diversification by Mortgage Companies," unpublished study, 1978



the reinvestment of profits rather than their distribution to investors as dividends.

- Decrease competitive problems. For those firms presently concentrating their activities in highly competitive markets, the negative impact of profit squeezes will be felt less as the company diversifies its activities into other, more profitable geographical markets or into more attractive product lines.

- Profitably employ surplus cash. Often, attractive investment opportunities within the core service and market areas may be limited.

- Raise the firm's value. A publicly traded firm can increase its value if investors place a premium on its stock due to intelligent diversification.

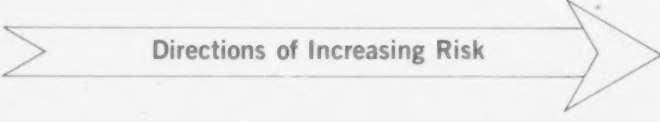
- Overcome unfavorable geographical locations through branching, horizontal integration, or franchises.

- Capitalize research in a given market or service through the development of related markets and services.

- Achieve a competitive advantage in serving present markets through completing a line of services. If a complete line is necessary to serve the customers who contribute most heavily to the firm's profit, this advantage can be tremendous.

Table 2
Kotler Product-Market Matrix

		MARKETS		
		Existing	Related	New
SERVICES	Existing	Market Penetration 1	Market Diversification 2	
	Related	Service Diversification 3	Service & Market Diversification 4	Concentric Diversification 5
	New	Horizontal Diversification 6	Conglomerate Diversification 7	



Directions of Increasing Risk

- Increase borrowing capacity through the acquisition of an asset-laden firm.

- Acquire new management, which often provides a company with fresh skills and new insights.

- Attract new employees due to the potential for a stimulating, more varied career ladder.

- Relieve psychological pressure on employees and customers desiring different work and different products. Diversity in this regard may provide the company with practice in adapting to and making creative, profitable change.

- Re-create cost centers as profit centers. Several mortgage bankers have successfully converted their data processing and personnel cost centers into profit centers.

How can diversification be analyzed?

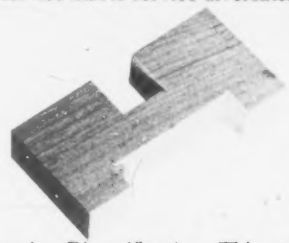
The product-market matrix provided in Table 2 is a particularly useful way to chart potential paths of corporate growth. Our discussion of diversification terminology will begin with an explanation of the various diversification strategies represented in the following expanded version of the Kotler matrix.⁴

Market Penetration. This strategy seeks to increase sales of present services in present markets through additional marketing efforts. Useful tactics include increasing usage by present customers; obtaining business at the expense of competitors; and inducing nonusers to try the service. These tactics must be aggressively pursued, but in a turbulent business climate traditional markets may wither and traditional services may lose their appeal. Diversification from the current market and service bases may become necessary.

Market Diversification. The literature on the product-market matrix is divided between calling this strategy "market diversification" or "market development" and between "service development" and "service diversification." We take the position that diversification occurs when a firm adds new services or new markets and that both need not be pursued concurrently to constitute diversification.

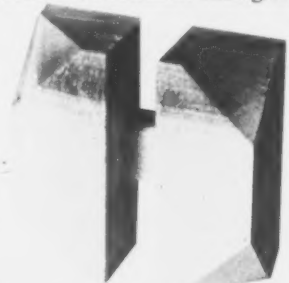
Market diversification seeks to expand corporate sales by exposing current services to new or related markets. Some tactics of this strategy include geographical expansion by opening new branch fa-

cilities and selling existing services to new or related user groups in the existing geographical regions. Although we live in a post-industrial, heavily services-oriented society, marketing literature typically retains a product orientation. Product marketers would pursue this tactic by altering the services offered with their products but in our view, *service* is the product. Likewise, if you subscribe to this "service oriented" viewpoint, you would probably agree that alteration of the service mix is service diversification.



Service Diversification. This strategy, often called "product development" or "service development," seeks to increase sales by developing new or improved services for existing markets. Tactics for implementation of this strategy include modification or improvement of current services; addition of services currently offered by competitors; and development of a new service related to current offerings.

Service & Market Diversification. This strategy seeks to increase sales by offering slightly different products to slightly different markets. There is higher risk involved than in the other three strategies because corporate management usually is not intimately familiar with either the markets or the services. The four strategies mentioned so far are sufficient to describe most growth plans and are often displayed in a 2 x 2 product-market matrix. The 3 x 3 matrix permits the discussion of three special and often useful additional diversification strategies.



Concentric Diversification. This strategy seeks to add services that involve marketing or technical synergy compatible with existing services. The new and existing services are offered as a comprehensive system or package to previously unserved customer groups. Many regional service firms have developed suc-

cessful operational systems that could be marketed independently. Successful franchisors often initially served a particular geographical market and later developed a system that could be marketed in other regions to other businesses. For example, when Evans Products added a construction finance system to their lumber division, the result was Capp Homes. In this case, the landowner who wanted to build a home on a "do-it-yourself" basis became a new market.

Horizontal Diversification. This strategy refers to services that are technologically unrelated to the present services line yet are offered to the same markets. In many cases, employment of this strategy may test the strengths of current management and subject the firm to new and significant areas of risk. A retail grocery firm that acquires a savings & loan is a good example.

Conglomerate Diversification. This strategy adds fundamentally unrelated new services or new markets and involves maximum risk to the firm. The new venture may involve considerable opportunity. However, because managers may lack familiarity with these unrelated lines of business, successful internal development can be difficult. Thus, this strategy often involves acquisition, merger, or joint venture considerations.



Growth Through Integration. The following three strategies do not fit neatly into the matrix but represent potential areas of growth.⁵

- Forward integration occurs when a company seeks ownership or control of its distribution systems, as, for example, when Merrill Lynch acquired United First Mortgage Corp.

- Backward integration happens when a company seeks ownership or control of its supply systems. Numerous real estate and building firms have established mortgage subsidiaries to ensure the cost and availability of mortgage funds.

- Horizontal integration occurs when a company seeks to expand its sales through the purchase or control of competitors. Acquisition and merger activity among savings and loans, real estate sales organizations, builders, escrow companies, mortgage companies, and related firms has been substantial during recent years, vividly illustrating this strategy.

Identification of opportunities

At this point, it is important to con-

Table 3
Services and Facilitating Goods

Existing	Potential
Loan programs	FHLMC pass-thru
Gov't	FNMA multifamily
FNMA	FNMA mobile home
High bal. conv.	Conventional MBS
HFA's	State HFA multi-family
Recreational	Early mortgage processing
Processing	Fast tract processing
tract	AITD collateral
spot	Escrow—State HFA et al.
Block purchases	Secondary financing
local	swing loans
national	purchase money
cash	wraparound
deferred	PPB license
Forward commitments	Land loans
floor	TD collateral loan
market	Home-purchase guarantees
Project prior approvals	Brokerage
FNMA	land
FHAVA	commercial loans
HFA	SBA loans
Interim disbursement control	Condo projects
rehab	Bonded warehouse
move-on	Investment placement
modular	Apartment syndicate
new const.	2nd TD's
Property management	Predevelopment
condos	Municipal bond underwriting
rentals	Computerized appraisals
Leasing	Computer pipeline accounting
Home improvements	Investment banking
Brokerage	GNMA
Insurance	Municipals
Computer loan accounting	CBOT
Loan servicing	System vs commodity sales
Warehousing lines	Rehab. coordination
Compensating balances	Mort. co. startups
Gov't. program information	Mort. co. services
	Proprietary components
	Sale by owner aids
	Video mortgage info
	Condo conversion
	Computer land inventory
	Development packaging
	Realty sales franchise
	100% realty chain
	Cut rate realty chain
	Modular distributor

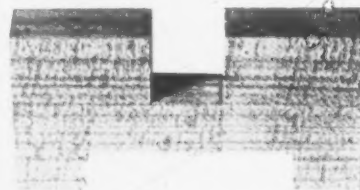
template the concept of the "range of services" offered by a mortgage banker and their facilitating goods. While mortgage bankers actually sell a product (i.e. mortgage money), they must market the benefits a closed loan brings to all parties.

Table 4
Customer Base Typical Mortgage Banker

Existing	Potential
Apartment tenants	Municipal HFA's
Real estate brokers	Modular mfrs.
homes	Prefab & component manufacturers
land	Individual investors
chain	Do-it-yourself builders
Existing borrowers	For sale by owners
Builders	Lumber/material firms
small	Land developers
large	urban
Operative rehabbers	recreational
Remodelling contractors	Redevelopment agencies
Apartment	Brokers
brokers	2nd TD
developers	Architects
owners	Engineers
Loan brokers	Foreign Investors
Home buyers	
Land owners	
FNMA/FHLMC/HFA/VA	
Institutional investors	
Mortgage bankers	
small	
large	
Local banks	
Local S&L's	
Rehab packagers	
Equipment	
vendors	
lessees	

operational level, the manager can process prepackaged VA tract loans for \$400 per case or originate a \$100,000 VA refinance on a 6-unit apartment for two veterans at a fee of \$1,800.

The ability to differentiate specific services and segment markets allows a mortgage banker to market services precisely. If McDonalds can differentiate its regular cheeseburger from its "Big Mac," mortgage bankers must be able to differentiate among services and offer them at appropriate prices to appropriate customer groups.



The list of services and facilitating goods presented in Table 3 was appropriate for one mortgage banker. While it goes beyond the capacity of more small and medium sized mortgage banking firms, it might serve as a schematic to be reorganized by a firm in one of two categories: existing services; and related or different services.

Range of customer types

Mortgage banking companies survive by servicing the needs of their customers, but each customer typically has a different perception of value and a different set of needs. To successfully offer the right package of services to the right customer group, any company's customer base must be segmented in a meaningful way. An example of a particular firm's analysis of its customer base is presented in Table 4.

Directions for growth

The product matrix presented in Table 2 identified seven directions of growth. Exploitation of the first four will probably keep most mortgage bankers busy for years.

Once the lists of customers and services have been divided into existing and potential categories, the matrix in Table 5 will be easy to construct.

Planning for diversification

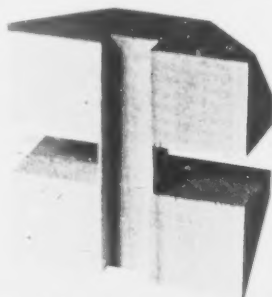
The basis for diversification planning should be the overall corporate plan of the firm. An honest assessment of corporate strengths, weaknesses, opportunities, and threats will provide initial direction for diversification efforts. A helpful, step-by-step approach to the subject of

Since insured loans are "commodity products," the most marketable service provided by the typical mortgage banker is the set of skills needed to convert loan applicants to property owners. Manufacturers of products often refer to "facilitating services," and service firms often refer to "facilitating goods." It may be preferable to think of the mortgage banker as a service firm that uses mortgage money as a facilitating good.⁶

The simplest operational level to analyze involves a mortgage banker that originates loans against investor commitments and releases its servicing at a premium. This firm offers services to real estate agents and their clients that include consultation about the most appropriate loan type; assumption of risk of price shifts; assurances of most expeditious handling; communication between all parties to relieve anxiety that the loan

may not close; and preparation of documentation satisfactory to borrower, mortgage insurer and investor.

For its services, the small firm typically receives from \$400-1,800 per transaction including origination fees, marketing gains (including sale of service), and documentation fees. The manager of this firm is free to design a service environment that creates customer benefits at various levels of service. At this simple



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cence; poor timing for the start of a new venture; and financial difficulties such as undercapitalization, unforeseen operating expenses, and expensive investment in fixed assets.

Acquisition rather than internal development involves more certainty about many of these items. Acquisition considerations include size of company; type of business and profitability; market share and growth potential; price and financing; management compatibility; and potential for integration.

Pitfalls of diversification

The success stories of American enterprise most often involve firms that developed a central technology or cultivated a particular market with distinction. Peter Drucker has noted that many recent business failures involve conglomerates or others that sought to be all things to all people.¹⁰

Particular potential pitfalls facing many diversified enterprises include:

- Communication problems probably grow geometrically as business complexity increases.

- Vulnerability to competition from smaller concentrated enterprises.

- When problems occur, top management's effectiveness is potentially lessened since it has relied on reports rather than first-hand exposure.

- A "superman" may fathom a diverse enterprise, but during his absence or upon his demise the business may become uncontrollable.

- The management of a service firm is confronted with numerous types of complexity that can be categorized as operational complexity, market complexity, development complexity, ownership complexity, and environmental complexity. When complexity is not carefully monitored and controlled, it may exceed the operational capacity of management.¹¹

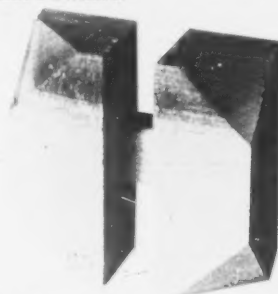
- Pitfalls involved in the selection of a particular opportunity include lack of objectivity resulting from failure to perform a complete marketing feasibility study; lack of market familiarity; underestimating financial requirements; lack of product differentiation; and inadequate understanding of legal issues.

- Pitfalls involved in the management of an embryonic service often include failure to recognize that new ventures re-

quire an entrepreneurial management style often unsuitable to a firm whose major product lines are mature and heavily controlled; and failure to allocate sufficient corporate resources to allow growth and development.

Summary

This article has highlighted some of the many types, reasons, methods, and pitfalls of diversification for mortgage bankers. Clearly, enlightened management must weigh the benefits from diversification against the risk of unmanageable complexity; the benefits from concentration and increased market penetration against the risks of overspeculation. The task before top management, as always, is to provide profits to the owners of the firm. Diversification, whether through expansion of markets, services, or both, is a means of achieving this end. In pursuing diversification, management must develop analytical procedures and successful strategies in order to infuse a core of unity into the firm's diversification plans and ultimately, to create profits for the firm's owners.



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Mortgage Market Trends

Prepared by MBA's Economics Department

May 21, 1980

The long-awaited recession, which finally appeared on the housing industries' doorstep during the first quarter, has already overstayed its welcome. Fortunately, in coming months the recession is expected to shift some of its weight out of the housing sector and into other sectors of the economy. This will allow the housing and real estate finance industries to begin a protracted period of recuperation.

Housing production's decline, which began in earnest last October, has been closely synchronized with the implementation of Federal Reserve credit restrictions. The housing market's response to construction loan interest rates in excess of 20 percent and mortgage rates only a few percentage points below that was one of drastic decline. Trends in both housing sales and starts have plummeted to lows reminiscent of the worst of the post-war recessions.

Recently, however, the picture has begun to brighten. With loan demand and short-term interest rates dropping into a much more comfortable range, the Federal Reserve will be relaxing its grip on the credit markets. Although mortgage rates will not fall as precipitously as short-term rates, their decline into the 11 to 13 percent range should signal a significant increase in the effective demand for homes. Of course, the inevitable caveats of rising unemployment, declining real personal income, and reductions in savings flows must be considered when discussing effective housing demand. Despite these factors, however, the public has demonstrated its willingness to sacrifice for a home purchase. While this trend is slowing, it will not disappear entirely as long as high levels of inflation persist.

A severe economic downturn would offer us some amount of consolation if it significantly reduced the inflation rate. Indeed, the consumer price index should show substantial abatement, perhaps even dropping briefly near single-digit rates as we move further into the recession. Unfortunately, there is no guarantee that a recession will reduce long-term inflation. In fact, the possibility exists that a significant downturn may actually aggravate the situation. Increased levels of federal deficit spending caused by additional outlays for unemployment benefits and decreased tax receipts will do little to reduce price increases. Furthermore, election year politics may cause premature fiscal and monetary stimuli to be applied, especially if unemployment asserts itself as a major campaign issue.

Added to these factors are the longer-term problems of mounting energy costs, escalating wage demands, and declining productivity. All in all, it may well turn out that recession's "bitter remedy" for price increases will prove to be nothing more than a placebo, having little effect on the long-term battle against inflation.

Schuyler Schell, Economist

MORTGAGE MARKET TRENDS—JUNE 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

HOUSE SALES

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate										
	1-4		5+	1-4		5+	1-4		5+	1-4		5+	1		2+	Non-Res.		Sold	Available For Sale	Months Supply at Current Rate
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Unit	Units	Res.				
1979	81	56	25	1,324	959	365	88	64	24	1,727	1,296	431	112,999	61,407	13,208	38,384	243	53	411	7.8
JAN	84	57	27	1,321	878	443	84	64	20	1,469	1,090	379	115,191	62,308	14,663	38,220	261	58	399	5.3
FEB	141	103	38	1,531	1,103	428	153	120	33	1,800	1,394	406	119,211	61,376	14,957	42,868	334	73	416	5.7
MAR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364	118,621	59,868	16,108	42,645	333	72	417	5.7
APR	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452	120,904	59,735	15,932	45,248	371	69	426	6.2
MAY	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511	124,452	60,363	17,300	46,789	344	64	420	6.6
JUN	138	104	34	1,528	1,136	392	164	130	34	1,764	1,352	412	125,507	60,554	17,196	47,757	343	66	421	6.3
JUL	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399	125,398	60,522	17,775	47,101	377	69	419	6.1
AUG	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514	125,801	60,352	18,726	46,723	314	62	414	6.7
SEP	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442	127,858	60,158	18,167	49,533	329	55	416	7.6
OCT	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428	127,499	58,752	19,081	49,666	255	41	409	10.0
NOV	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383	131,138	58,094	20,744	52,300	197	34	403	11.8
DEC																				
1980	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290	133,099	56,790	20,953	55,356	209	43	393	9.2
JAN	76	54	22	1,142	801	341	80	55	25	1,330	887	443	129,070	54,289	21,609	53,172	220	43	372	8.9
FEB	82	56	26	932	627	305	85	59	26	1,041	705	336	119,214p	48,537p	19,152p	51,525p	243	42p	372p	8.9p
MAR	78p	54p	24p	800p	531p	269p	95p	69p	26p	1,019p	713p	306p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
APR																				
3 months	233	162	71				238	170	68								672	128		
1980	306	216	90				325	248	77								838	184		
1979	340	243	97				362	280	82								858	195		
1978	331	253	78				367	293	74								762	209		
1977																				

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

CONSTRUCTION STATUS

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES																STARTS								UNDER CONSTRUCTION						COMPLETIONS																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																					
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INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS ¹	CON- STRUCTION LOANS ¹ ALL TYPES	FNMA		GNMA Current Securities Yield ¹	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments ² FHA/VA Conv.	Aaa Utility New Issue		U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't	
	FHA New ³	Conventional		Conventional							10-yr	26-wk				
		New	Existing	New	Existing											
1978	10.16	10.30	10.30	10.02	10.08	9.875-10.125		10.508	10.825	9.61	9.28	9.01	9.397	10.37	88	60
DEC 1979	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.54	9.10	9.501	10.25	63	60
JAN	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79	10.506	11.040	9.68	9.53	9.10	9.349	9.95	64	60
FEB	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.90	57	62
MAR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68
APR	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79
MAY	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90
JUN	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.49	8.95	9.236	9.87	87	86
JUL	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98
AUG	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107
SEP	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.660	13.23	n.a.	100
OCT	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93
NOV	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
DEC 1980	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
JAN	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
FEB	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	90
MAR																

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5 + Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks*	Life Cos.
1978																				
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,711	3,790	4,913	4,440	228	1,104	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,152	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	211	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,217	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	318	149	2,808	525	127	1,282	874
SEP	18,188	5,532	5,507	5,706	1,443	14,088	4,681	5,191	3,978	238	847	331	180	265	171	3,153	520	136	1,463	1,034
OCT	20,011	5,554	6,223	6,729	1,505	16,009	5,026	5,916	4,847	220	583	56	184	192	151	3,419	472	123	1,690	1,134
NOV	17,252	4,678	4,968	6,175	1,431	13,107	3,873	4,724	4,260	250	613	138	130	223	122	3,532	667	114	1,692	1,059
DEC	14,311	4,508	3,304	5,018	1,461	10,420	3,543	3,112	3,338	427	596	109	75	251	141	3,295	856	117	1,429	893
1980																				
JAN	11,249p	3,374p	2,399p	4,073	1,403p	8,159p	3,048p	2,240p	2,703p	168p	397p	23p	76p	204p	94p	2,693p	303p	83p	1,166p	1,141p

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED UNITS			INSURED							
														Total		FHA (20)		VA		Private	
	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.	Total	Mtg Bankers	S&Ls	Banks*	Life Cos.	Total	FHA VA	Private	Units	Am't	Units	Am't	Units	Am't	Units	Am't
1978																					
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710	138	73	65	102	3,949	48	584	22	881	62	2,484
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940	188	122	66	131	4,931	40	1,279	28	1,179	63	2,473
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	79	39	109	4,193	29	963	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,632	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	75,593	17,430	21,085	11,849	25,529	17,520	3,900	8,713	2,525	2,482	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,526	4,630	10,387	3,745	3,164	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375	127	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,203	7,780	2,489	2,676	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	80,082	16,335	20,930	11,575	31,242	18,010	4,858	7,992	2,889	2,271	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	75,796	15,875	18,029	11,346	30,546	12,819	3,967	4,741	2,416	1,695	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	70,234	14,745	16,007	10,556	28,926	9,277	3,222	3,248	1,912	895	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980																					
JAN	66,090p	14,371p	15,559p	9,031p	27,129p	9,464p	3,710p	3,510p	1,614p	630p	96	66	24	100	4,534	31	1,142	39	1,956	30	1,436

SECONDARY MARKET ACTIVITY

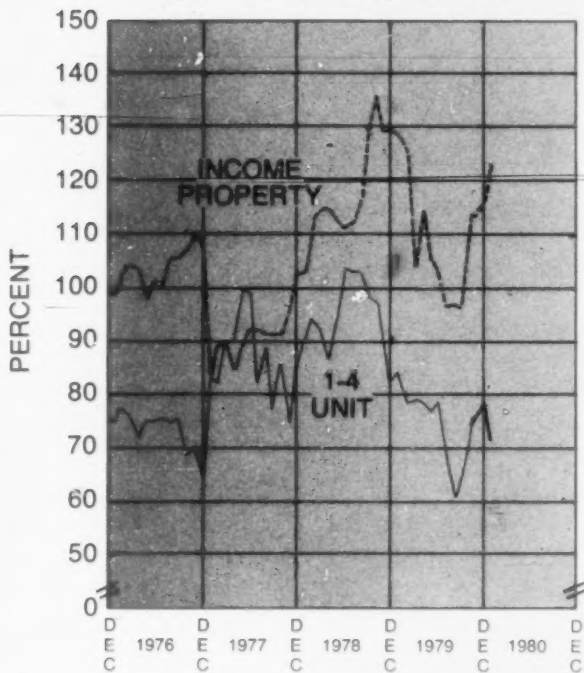
(Dollars in Millions)

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

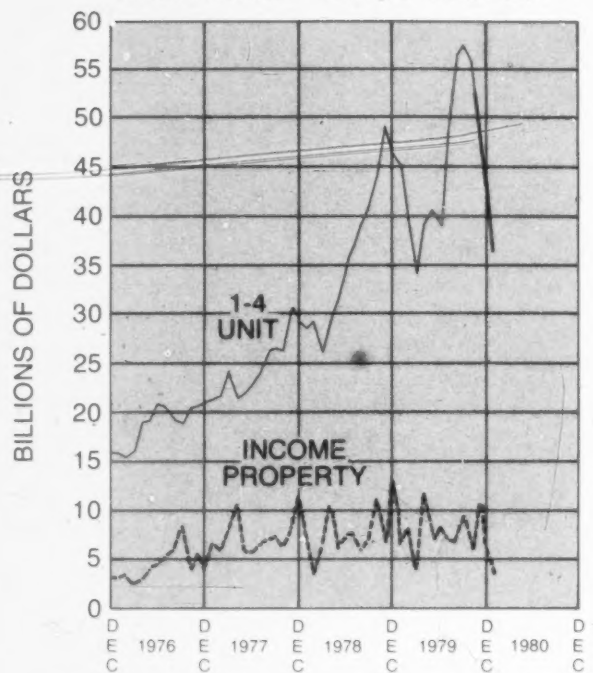
(Dollars in Millions)

Year and Month	FNMA					FHLMC			—GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	4-Month Commitments				12 Month Convert Standby	Comm	Purc	Sold	Pass-Through Securities		Construction				Land Loans	Total	1-4 Units	5+ Units	Non-res.
	FHA VA		Conventional						Applications	Issued	Total	1-4 Units	5+ Units	Non-res.					
	Bid	Accept.	Bid	Accept.															
1978																			
DEC	627	320	417	221	319	290	598	340	3,295	1,381	620	270	180	170	40	4,190	1,550	1,130	1,510
1979																			
JAN	805	155	114	58	132	327	498	321	2,925	1,426	550	250	100	200	50	4,400	1,700	1,140	1,560
FEB	211	161	63	45	89	295	401	291	2,892	1,304	420	230	80	110	30	4,130	1,640	960	1,530
MAR	508	284	145	114	71	427	350	116	2,680	1,453	470	280	80	110	40	4,620	1,700	1,150	1,770
APR	1,323	638	662	364	517	492	358	363	5,907	1,488	570	300	120	150	50	4,250	1,610	1,230	1,410
MAY	426	185	459	214	503	601	560	572	3,009	1,673	560	330	100	130	60	3,910	1,820	740	1,350
JUN	220	100	358	195	277	462	447	182	3,621	1,860	700	450	110	140	50	4,460	2,060	1,120	1,280
JUL	133	70	94	70	160	517	518	320	6,211	2,032	594	312	121	161	59	4,010	1,870	870	1,270
AUG	162	83	246	184	184	581	636	354	5,105	2,933	734	339	151	244	81	4,553	2,072	1,069	1,412
SEP	1,421	680	527	326	343	437	537	347	4,012	2,640	723	312	86	325	152	4,897	2,101	679	2,117
OCT	29,943	1,130	1,050	431	828	504	552	531	6,509	2,639	784	307	106	371	45	4,487	1,636	1,224	1,627
NOV	558	265	366	190	0	221	458	186	7,410	3,250	640	248	144	248	44	4,632	1,608	1,344	1,680
DEC	649	249	413	152	0	199	403	211	3,539	1,894	647	240	113	294	46	4,141	1,543	937	1,661
1980																			
JAN	516	232	443	247	26	296	279	180	4,265	2,611	603p	233p	100p	270p	20p	4,581p	1,644p	1,249	1,688p
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

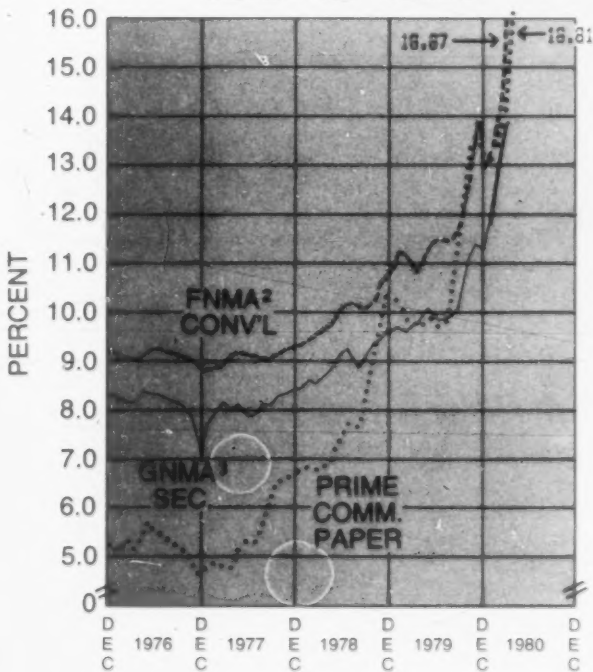
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



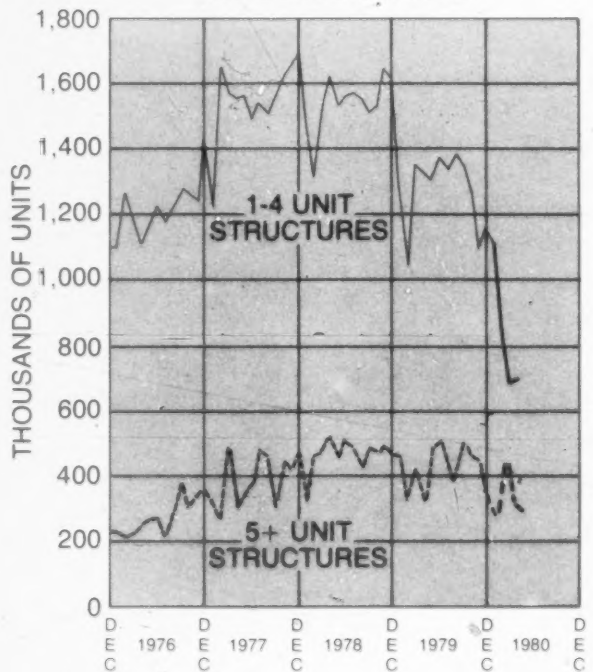
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED⁴



SELECTED YIELDS



HOUSING STARTS⁴



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS, SECURITIES FOR IMMEDIATE DELIVERY.
4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA—ECONOMICS DEPARTMENT

Mortgage Banker

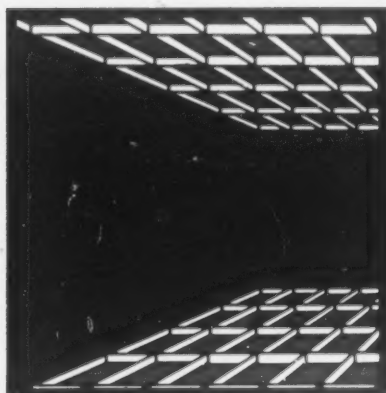
JULY 1980

***NEW PERSPECTIVES
IN REAL ESTATE FINANCING***

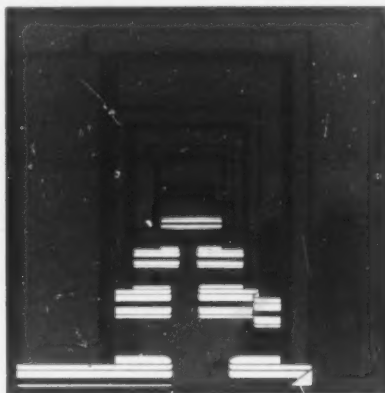


Mortgage Banker

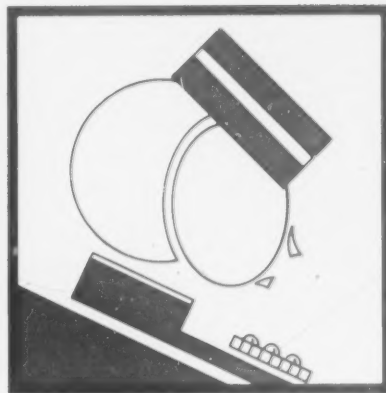
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Mortgage Market Trends

Prepared by MBA's Economics Department

The 1980 recession is looking more and more familiar as the year moves on. The one last cause for optimism regarding the economy amidst a multitude of deteriorating indicators was the lean inventory position that had been maintained—until recently. Climbing inventories portend a deeper and lengthier recession than had previously been hoped for. The drop in real Gross National Product that will be materializing in coming months should be worse than that experienced during the average post-WWII recession. And the recovery, in turn, will probably be postponed until further into 1981.

The most spectacular reversal of the inventory picture has occurred in the housing sector. Inventories of new one-unit houses for sale had maintained very modest levels through October of last year. However, in response to a much tighter credit policy, mortgage interest rates and home sales took widely divergent paths. As mortgage rates climbed to record levels, new home sales were practically cut in half relative to their cyclical peak. Attempts to adjust shelter production to this radically changing housing market, which cut housing starts by over 40 percent between October and April, failed to keep housing inventories from accumulating rapidly. As April's new home sales fell to their lowest level since the mid-sixties, the month's supply of new homes at the current sales rate, a popular inventory measure, jumped to a seasonally adjusted 12.0 months. This rate is almost twice the year-ago level and establishes a new record for the series, well in excess of the 10.4 months' peak inventory reached in the '74-'75 recession.

Inventory problems have not been confined to the housing sector. Business inventories in April experienced their biggest increase in almost a year, concurrent with a record drop in business sales. The net effect of these trends was an increase in the stocks to sales ratio to 1.51 months' supply, the highest level since late 1976.

Clearly, the American consumer has pulled back from the hostile economic "front" established in the first quarter. And it will probably take more than a general easing in the credit market to entice the consumer back into the retail and housing markets. Extremely bleak employment and income trends will overshadow the improving credit picture for many Americans. May's record monthly increase in the number of persons unemployed, the climbing unemployment rate, and the 11th, 12th, and 13th consecutive monthly declines in real income (expected between March and May) will place a considerable drag on the consumer's wholehearted return to the marketplace.

Another "inventory" problem that will become more and more apparent to mortgage bankers in coming months is the inventory of unpaid bills piling up around many consumers. The worsening employment and income picture has been reflected in record mortgage delinquency rates in recent months. The overall U.S. delinquency rate on one- to four-unit residential mortgages rose to a record 4.96 percent in the first quarter of 1980. While the rate of 30-day delinquencies contributed most to the overall rise, a general worsening in employment and income trends since March indicates that these record or near-record rates will be maintained, if not exceeded, and will spread to the longer-term delinquency categories in the months to come.

Frances E. Wrocklage, Senior Economist

MORTGAGE MARKET TRENDS—JULY 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE (Units in thousands)												VALUE OF NEW CON- STRUCTION PUT IN PLACE (Dollars in millions)					HOUSE SALES (Units in thousands)				
Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate					EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate											
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1 Unit	2+ Units	Non- Res					
	Sold	Avail- able For Sale	Months Supply at Current Rate																		
1979																					
JAN	81	56	25	1,324	959	365	88	64	24	1,727	1,296	431	112,999	61,407	13,208	38,384	243	53	411	7.8	
FEB	84	57	27	1,321	878	443	84	64	20	1,469	1,090	379	115,191	62,308	14,663	38,220	261	58	399	8.3	
MAR	141	103	38	1,531	1,103	428	153	120	33	1,800	1,394	406	119,211	61,376	14,967	42,868	334	73	416	5.7	
APR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364	118,621	59,868	16,108	42,645	333	72	417	5.2	
MAY	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452	120,904	59,735	15,932	45,248	371	69	426	6.2	
JUN	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511	124,452	60,363	17,300	46,789	344	64	420	6.6	
JUL	138	104	34	1,528	1,136	392	164	130	34	1,764	1,352	412	125,507	60,584	17,196	47,757	343	66	421	6.5	
AUG	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399	125,398	60,522	17,375	47,101	377	69	419	6.1	
SEP	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514	125,801	60,352	18,726	46,723	314	62	414	6.7	
OCT	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442	127,858	60,158	18,167	49,533	329	55	416	7.6	
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428	127,499	58,752	19,081	49,666	255	41	409	10.0	
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383	131,138	58,094	20,744	52,300	197	34	403	11.8	
1980																					
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290	133,099	56,790	20,953	55,356	209	43	393	9.2	
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443	129,070	54,289	21,609	53,172	220	44	381	8.7	
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336	119,385	48,521	19,224	51,643	243	43	370	8.6	
APR	78p	54p	24p	800p	511p	269p	95p	69p	26p	1,019p	713p	306p	111,338p	42,459p	18,413p	50,464p	224	37p	359p	9.7p	
3 months																					
1980	233	162	71				238	170	68								672	128			
1979	306	216	90				325	248	77								838	184			
1978	340	243	97				362	280	82								858	195			
1977	331	253	78				367	293	74								762	209			

RESIDENTIAL STRUCTURES, BY REGION														CONSTRUCTION STATUS								
(units in thousands)														(units in thousands)								
Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS		
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate				Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West						
1979	10	8	35	29	189	198	500	437	8	7	45	28	257	258	782	430	1,270	813	457	129	100	29
JAN	6	10	37	31	140	229	506	446	6	7	42	29	180	213	647	429	1,223	776	447	126	97	29
FEB	12	25	62	42	143	294	646	448	12	26	75	40	190	368	780	462	1,216	777	439	149	113	36
MAR	14	31	51	43	142	297	543	455	15	34	65	47	171	356	692	531	1,228	793	435	142	111	31
APR	18	37	60	48	181	328	616	493	18	50	72	51	173	396	734	498	1,259	831	438	156	113	43
MAY	18	34	59	45	199	332	636	472	19	24	79	51	178	371	862	499	1,283	837	446	166	130	36
JUN	15	27	51	45	161	281	585	501	18	36	68	43	174	356	762	472	1,300	852	448	151	116	35
JUL	15	30	50	47	147	310	664	533	20	39	74	40	176	388	770	454	1,301	860	441	159	123	36
AUG	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553	1,283	850	433	181	125	56
SEP	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456	1,274	837	437	174	135	39
OCT	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387	1,226	794	432	165	121	44
NOV	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399	1,140	717	423	174	139	35
DEC																						
1980	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	333	1,088	678	410	125	94	31
JAN	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333	1,041	644	397	126	89	37
FEB	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247	994	611	383	130	91	39
MAR	8p	13p	38p	19p	87p	123p	396p	194p	9p	15p	48p	22p	128p	161p	486p	244p	958p	590p	368p	135p	93p	42p
APR																						
3 months																						
1980	20	26	118	69					16	26	132	66								381	273	108
1979	28	43	134	102					26	40	162	97								404	310	94
1978	28	58	135	121					19	55	172	116								375	295	80
1977	31	59	118	122					24	58	160	126								334	265	69

INTEREST RATES AND YIELDS																	
Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ¹	CON- STRUCTION LOANS ¹ ALL TYPES	FNMA		GNMA Current Securities Yield ²	SELECTED SECURITIES ³				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey					FMS Auction Yields on 4 mo Commitments ⁴	GNMA Current Securities Yield ²		Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't
	FHA New ¹	Conventional		Conventional		10-yr						26-wk	90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't		
		New	Existing	New	Existing												
1979																	
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.54	9.10	9.501	10.25	63	60	
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79	10.506	11.040	9.68	9.53	9.10	9.349	9.95	64	60	
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.90	57	61	
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68	
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79	
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90	
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86	
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98	
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107	
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.92	10.30	11.660	13.23	n.a.	100	
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93	
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117	
1980																	
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116	
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61	
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94	
APR	13.45	15.55	15.55	13.00	13.56	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170	

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION									
						1-4 Units					5+ Units				
	Total	Mtg Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg Bankers	S&Ls	Banks ^a	Life Cos.
1978															
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	145
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	365	330
1979															
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,570	67	677	120	182	278	97
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	80	141	184	147
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58
JUN	19,899	4,263	7,209	7,120	1,307	16,065	3,754	6,848	5,246	107	879	199	208	225	247
JUL	19,368	4,852	6,111	7,169	1,296	15,412	4,238	5,811	5,237	126	771	232	177	269	93
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149
SEP	18,188	5,532	5,507	5,706	1,443	14,088	4,681	5,191	3,978	238	847	331	180	265	171
OCT	20,011	5,554	6,223	6,729	1,505	16,009	5,026	5,916	4,847	220	583	56	184	192	151
NOV	17,252	4,678	4,968	6,175	1,431	13,107	3,873	4,724	4,260	250	613	138	130	223	122
DEC	14,311	4,508	3,304	5,018	1,461	10,420	3,543	3,112	3,338	427	596	109	75	251	141
1980															
JAN	11,249p	3,374p	2,399	4,073	1,403	8,159p	3,048p	2,240	2,703	168	397p	21p	7p	204	94
FEB	n.a.	n.a.	2,630p	3,802p	1,050p	n.a.	n.a.	2,476p	2,361p	248p	n.a.	n.a.	68p	148p	4p

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED UNITS			INSURED							
	Total	Mtg Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg Bankers	S&Ls	Banks ^a	Life Cos.	FHA	VA	Private	Total	FHA (203)	VA	Private	Units	Units	Units	Units
1978																					
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150	152	94	58	121	4,802	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	76,264	14,860	22,923	12,169	26,312	19,010	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,203	7,730	2,489	2,676	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	80,082	16,335	20,930	11,575	31,242	18,010	4,858	7,992	2,889	2,271	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	75,796	15,875	18,029	11,346	30,546	12,819	3,967	4,741	2,416	1,695	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	70,234	14,745	16,007	10,556	28,926	9,277	3,222	3,248	1,912	895	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980																					
JAN	66,090p	14,371p	15,559p	9,031p	27,129p	9,464p	3,710p	3,510p	1,614p	630p	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	n.a.	n.a.	16,744p	8,719p	25,417p	n.a.	n.a.	5,017p	1,637p	700p	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	101	61	40	74	3,371	18	696	27	1,329	29	1,346

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	4 Month Commitments				12 Month Convert Standby	Comm.	Part.	Sold	Pass-Through Securities		Construction				Land Loans	Total	1-4 Units	5+ Units	Non-res.
									Applications	Issued	Total	1-4 Units	5+ Units	Non-res.					
	FHA/VA Bid	Accept	Conventional Bid	Accept															
1979																			
JAN	305	155	114	58	132	327	498	321	2,925	1,426	550	250	100	200	50	4,400	1,700	1,140	1,560
FEB	211	161	63	45	89	295	401	291	2,892	1,304	420	230	80	110	30	4,130	1,640	960	1,530
MAR	508	284	145	114	71	427	350	116	2,680	1,453	470	280	80	110	40	4,620	1,700	1,150	1,770
APR	1,323	638	662	364	517	492	358	363	5,907	1,488	570	300	120	150	50	4,250	1,610	1,230	1,410
MAY	426	185	459	214	303	601	560	572	3,009	1,673	560	330	100	130	60	3,910	1,820	740	1,350
JUN	220	100	358	195	277	462	447	182	3,621	1,860	300	450	110	140	50	4,460	2,060	1,120	1,280
JUL	133	70	94	70	160	517	518	320	6,211	2,032	594	312	121	161	59	4,010	1,870	870	1,270
AUG	162	83	246	184	184	581	636	354	5,105	2,933	744	339	151	244	81	4,553	2,072	1,069	1,412
SEP	1,421	600	527	326	343	437	537	447	4,012	2,640	723	312	86	325	152	4,897	2,101	679	2,117
OCT	2,943	1,130	1,050	431	828	504	552	531	6,509	2,639	784	307	106	371	45	4,487	1,636	1,224	1,627
NOV	558	265	366	190	0	221	458	186	7,410	3,250	640	248	144	248	44	4,632	1,608	1,344	1,680
DEC	649	249	413	152	0	199	403	211	3,839	1,894	647	240	113	294	46	4,141	1,543	937	1,661
1980																			
JAN	516	232	443	247	26	296	279	180	4,265	2,611	603p	233p	100p	270p	26p	4,581p	1,644p	1,249	1,688p
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
APR	494	199	135	66	85	189	231	200	4,509	1,778	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.-Not available; p-Preliminary

¹From the National Association of Realtors' "Existing Home Sales" series.

²Reflects cumulative total through the latest month for each column.

³Secondary market gross yields.

⁴Benchmark rates, Citicorp Real Estate, Inc.

⁵Federal Reserve's weighted average interest rate for Commercial Banks.

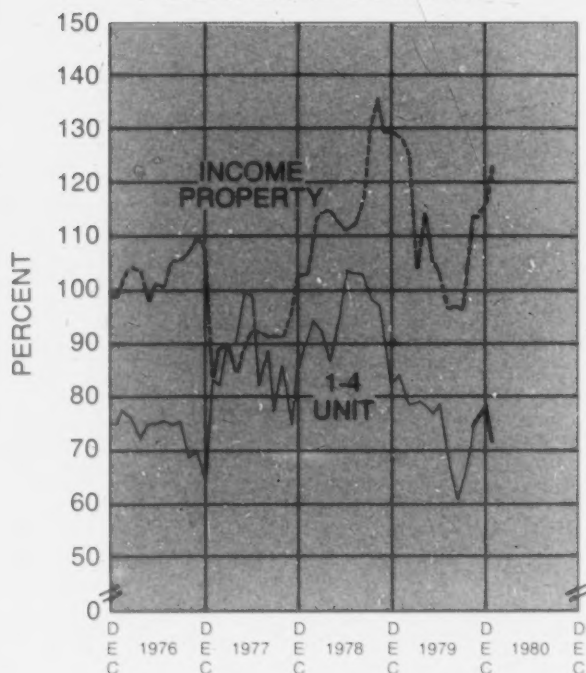
⁶Weighted average gross yields for accepted bids.

⁷Survey of three New York security dealers. Securities for immediate delivery.

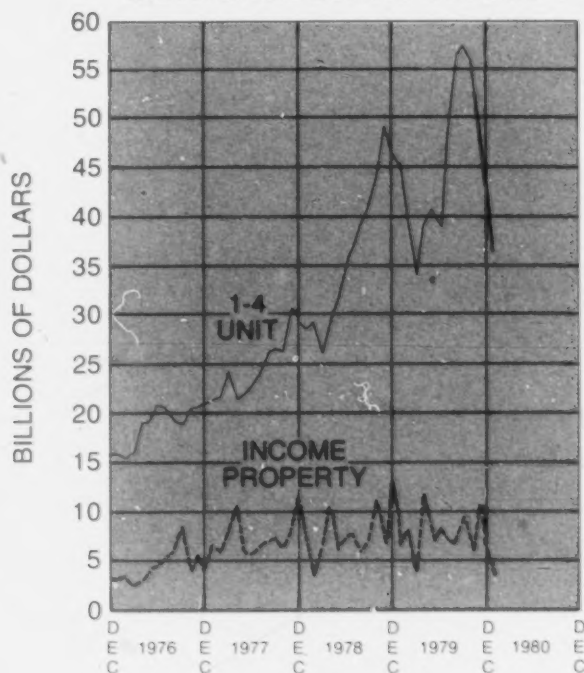
⁸Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

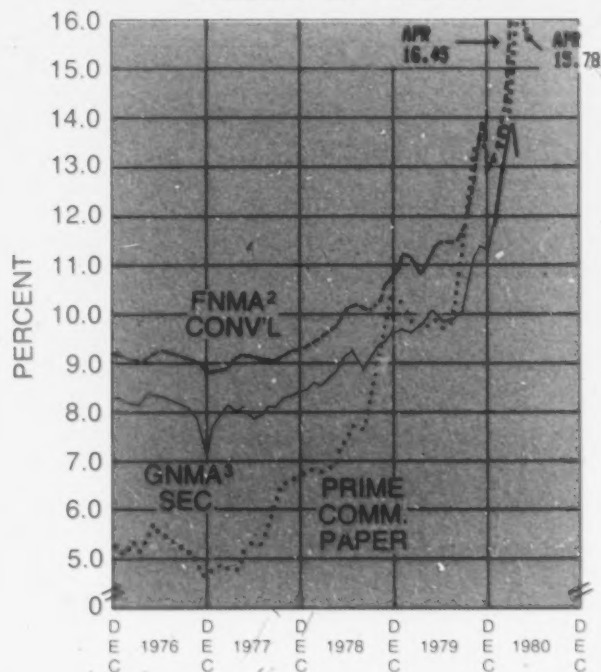
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



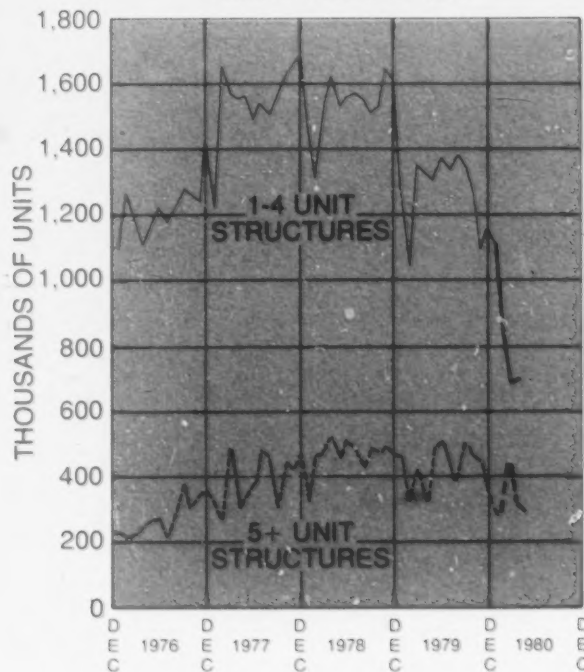
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED⁴



SELECTED YIELDS



HOUSING STARTS⁴



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS. MULTIPLIED BY 100.

2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.

3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.

4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT

AL450-2

Mortgage Banker

AUGUST 1980

TITLE INSURANCE

NEW HORIZONS FOR
THE 1980'S



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Victor Marrero: Profile
Loan Officer Recruitment

Mortgage Banker

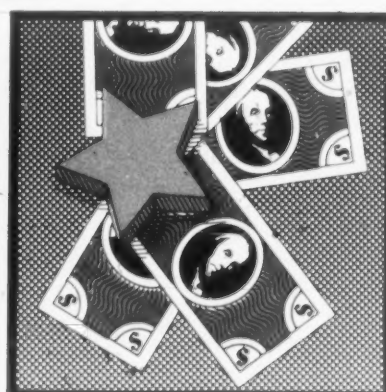
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34 Managing People

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Business and Editorial Offices

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Mortgage Market Trends

Prepared by MBA's Economics Department

July 16, 1980

Only a month ago the economy appeared bogged down in a mire of recessionary indicators, but the outlook now appears to be brightening. It now looks as if a marked transformation in several key sectors has given hope for an early rescue.

One of the major catalysts for the resumption of activity in a number of sectors, and most notably the housing sector, has been the recent unprecedented decline in interest rates. The commercial bank prime lending rate, at an all time high of 20 percent in mid-April, has fallen 875 basis points to its present 11.25 percent level. These rate declines came on the heels of plummeting retail sales, record contractions in consumer credit, and prolonged declines in business loan demand. The prime lending rate, which has thus far lagged the decline in more market-oriented interest rates, should drop into the 10 percent range by late summer.

In line with this short-term credit market transformation, long-term rates, including mortgage rates, have made a spectacular retreat from late March's record levels. A little over three months ago, the thrifts' prime source of new deposits, the money market certificate, was pegged at 15.7 percent; after a very steep initial fall-out of around 800 basis points, the MMC rate has only returned to the 8.6 percent level. Commercial banks have had an analogous improvement in their cost of new funds. The disintermediation pressures that have been so conspicuous during the up-side of this cycle should slacken in line with interest rates. Even life companies should experience some relief from the outflow caused by policy loans in recent months.

Of course, long-term interest rates are not just a function of the short-term market; they are, in fact, as much a reflection of lenders' longer term expectations, especially those concerning inflation. Near-term declines in the consumer price level will reinforce the coming months' interest rate declines; but these price declines will not last long. The slowdown in the housing-related components of the CPI is temporary and will quickly dissipate as housing demand, house prices, and mortgage rates surge in the coming recovery. The slowdown of the CPI is not expected to last, but it should be around long enough to break the long string of real income declines that have occurred every month since May 1979. With the return of real incomes should come a return in consumer confidence and spending. Indications of this return may be exhibited in the 1.5 percent June increase in retail sales. While this is a definite departure from many months of decline, overall retail sales are still at least 5 percent below their January peak.

Housing demand has already shown signs of a reserved rally. These signs appeared in May with a modest 5.6 percent increase in one-to four-unit building permit issuance and a marked improvement in new home sales and inventory measures. Such sales recovered to a seasonally adjusted annual rate of 488,000 units, up almost 40 percent from April's record low. This sales turn-around contributed to a trimming of the months' supply of new houses for sale at the current sales rate to a seasonally adjusted 8.8 months from the record 12.5 month level posted in April. This inventory measure will be further whittled down in coming months as house sales maintain a strong profile relative to the very modest number of new houses that will be added to the for-sale inventory.

The emerging return of the consumer to the retail and housing markets may well be a signal that we have turned the corner on the recession; however, we are still a long way from where the economic expansion left off last January.

Schuyler Schell, Economist

MORTGAGE MARKET TRENDS—AUGUST 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE (Units in thousands)													VALUE OF NEW CON- STRUCTION PUT IN PLACE (Dollars in millions)				HOUSE SALES (Units in thousands)			
Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate										
	1-4 Units		5+ Units	1-4 Units		5+ Units	1-4 Units		5+ Units	1-4 Units		5+ Units						1 Unit		2+ Units
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Unit	Units	Res.				
1979	141	103	38	1,531	1,103	428	153	120	33	1,800	1,394	406	119,211	61,376	14,967	42,868	334	73	416	5.7
MAR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364	118,621	59,868	16,108	42,645	333	72	417	5.7
APR	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452	120,904	59,735	15,932	45,248	371	69	426	6.2
MAY	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511	124,452	60,363	17,300	46,789	344	64	420	6.6
JUN	138	104	34	1,528	1,136	392	164	130	34	1,764	1,352	412	125,507	60,554	17,196	47,757	343	66	421	6.3
JUL	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399	125,398	60,522	17,775	47,101	377	69	419	6.1
AUG	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514	125,801	60,352	18,726	46,723	314	62	414	6.7
SEP	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442	127,858	60,158	18,167	49,533	329	55	416	7.6
OCT	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428	127,499	58,752	19,081	49,666	255	41	409	10.0
NOV	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383	131,138	58,094	20,744	52,300	197	34	403	11.8
DEC																				
1980																				
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290	133,099	56,790	20,953	55,356	209	43	393	9.2
FEB	76	54	22	1,242	801	341	80	55	25	1,330	887	443	129,070	54,289	21,609	53,172	220	44	381	8.7
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336	119,385	48,521	19,221	51,643	243	43	370	8.6
APR	77	54	23	789	536	253	96	71	25	1,030	728	302	113,449	43,018	17,723	52,708	224	36	361	10.2
MAY	77	56	21	825	576	249	92	73	19	913	714	199	107,114p	37,983p	17,088p	52,033p	219	46p	347p	7.6p
JUN	100p	69p	31p	1,059p	722p	337p	112p	82p	30p	1,191p	814p	377p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5 months																				
1980	387	272	115				426	314	112								1,115	211		
1979	607	443	164				676	524	152								1,542	324		
1978	666	490	176				771	598	173								1,574	360		
1977	649	492	157				751	606	145								1,405	368		

RESIDENTIAL STRUCTURES, BY REGION														CONSTRUCTION STATUS								
(units in thousands)														(units in thousands)								
Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS		
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate									
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979																						
MAR	12	25	62	42	143	294	646	448	12	26	75	40	190	368	780	462	1,216	777	439	149	113	36
APR	14	31	51	43	142	297	543	455	15	34	65	47	171	356	692	531	1,228	793	435	142	111	31
MAY	18	37	60	48	181	328	616	493	18	50	72	51	173	396	734	498	1,259	831	438	156	113	43
JUN	18	34	59	45	199	332	636	472	19	24	79	51	178	371	862	499	1,283	837	446	166	130	36
JUL	15	27	51	45	161	281	585	501	18	36	68	43	174	356	762	472	1,300	852	448	151	116	35
AUG	15	30	50	47	147	310	664	533	20	39	74	40	176	388	770	454	1,301	860	441	159	123	36
SEP	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553	1,283	850	433	181	125	56
OCT	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456	1,274	837	437	174	135	39
NOV	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387	1,226	794	432	165	121	44
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399	1,140	717	423	174	139	35
1980																						
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339	1,088	678	410	125	94	31
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333	1,041	644	397	126	89	37
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247	991	609	382	130	90	40
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257	953	588	365	135	93	42
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203	926p	575p	351p	120p	86p	34p
JUN	9p	16p	48p	27p	93p	153p	528p	285p	12p	19p	59p	23p	107p	160p	695p	229p	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5 months																						
1980	37	51	191	108					38	56	225	110								636	452	184
1979	60	111	245	193					59	124	299	195								702	534	168
1978	61	137	247	221					60	153	336	222								657	530	127
1977	65	143	222	218					64	160	306	221								569	457	112

INTEREST RATES AND YIELDS																	
Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ⁴	CON- STRUCTION LOANS ⁵ ALL TYPES	FNMA		GNMA Current Securities Yield ⁷	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey								FMS Auction Yields on 4 mo. Commitments ⁶		Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper
	FHA New ¹	Conventional		Conventional					FHA VA			Conv.	10-yr	26-wk	90-119 Days		
		New	Existing	New	Existing												
1979																	
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79	10.506	11.040	9.68	9.53	9.10	9.349	9.95		64	60
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.90		57	61
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85		n.a.	68
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94		78	79
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76		99	90
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87		87	86
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27		110	98
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63		154	107
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.660	13.23		n.a.	100
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57		99	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24		99	117
1980																	
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04		87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78		n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.90	12.75	15.100	16.81		63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.4	13.618	15.78		55	170
MAY	11.99	43.20	13.20	13.67	14.12	13.000-15.000	n.a.	12.855	13.535	11.54	11.53	10.18	9.149	9.49		46	136

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg Bankers	S&Ls	Banks*	Life Cos	Total	Mtg Bankers	S&Ls	Banks*	Life Cos	Total	Mtg Bankers	S&Ls	Banks*	Life Cos	Total	Mtg Bankers	S&Ls	Banks*	Life Cos
1978																				
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,104	200	204	65	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	150	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,811	5,237	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149	2,808	525	127	1,282	874
SEP	18,188	5,532	5,507	5,706	1,443	14,088	4,681	5,191	3,978	238	847	331	180	265	171	3,153	520	136	1,463	1,034
OCT	20,011	5,554	6,223	6,729	1,505	16,009	5,026	5,916	4,847	220	583	56	184	192	151	3,419	472	123	1,690	1,134
NOV	17,252	4,678	4,968	6,175	1,431	13,107	3,873	4,724	4,260	250	613	138	130	223	122	3,532	667	114	1,692	1,059
DEC	14,311	4,508	3,304	5,018	1,461	10,420	3,543	3,112	3,338	427	596	109	75	251	141	3,295	856	117	1,429	893
1980																				
JAN	11,249p	3,374p	2,399	4,073	1,463	8,159p	3,048p	2,240	2,703	168	397p	23p	76	204	94	2,693p	303p	83	1,166	1,141
FEB	n.a.	n.a.	2,630p	3,802p	1,050p	n.a.	n.a.	2,476p	2,361p	248p	n.a.	n.a.	68p	148p	4p	n.a.	n.a.	86p	1,293p	798p

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	dollars in millions										(Units in thousands, dollars in millions)										
	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED UNITS			INSURED							
														Total		FHA (203)		VA		Private	
	Total	Mtg Bankers	S&Ls	Banks ⁸	Life Cos	Total	Mtg Bankers	S&Ls	Banks ⁸	Life Cos	Total	FHA VA	Private	Units	Am't	Units	Am't	Units	Am't	Units	Am't
1978																					
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979																					
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640	114	74	40	93	3,861	27	936	31	1,367	35	1,555
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	80,544	15,855	23,569	13,127	27,993	21,926	4,630	10,387	3,745	3,164	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,824	9,003	3,795	2,906	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,203	7,730	2,489	2,676	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	80,082	16,335	20,930	11,575	31,242	18,010	4,858	7,992	2,889	2,271	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	75,796	15,875	18,029	11,346	30,546	12,819	3,967	4,741	2,416	1,695	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	70,234	14,745	16,007	10,556	28,926	9,277	3,222	3,248	1,912	895	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980																					
JAN	66,090p	14,371p	15,559p	9,031p	27,129p	9,464p	3,710p	3,510p	1,614p	630p	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	n.a.	n.a.	16,744p	8,719p	25,417p	n.a.	n.a.	5,017p	1,637p	700p	91	63	28	71	4,153	21	753	26	1,301	24	1,099
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	101	61	40	74	3,371	18	696	27	1,329	29	1,346

SECONDARY MARKET ACTIVITY

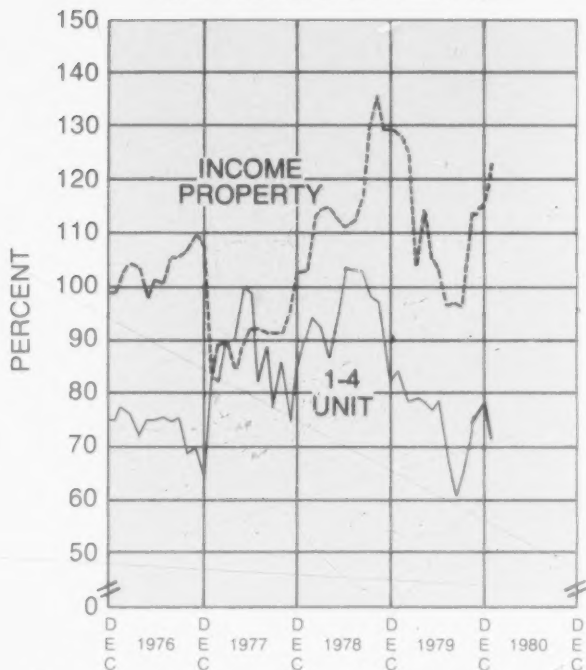
(Dollars in Millions)

Year and Month	(Dollars in millions)										(Dollars in millions)								
	FNMA				FHLMC			GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS				
	4-Month Commitments		12 Month Convert Standby	Comm	Purc	Sold	Pass-Through Securities		Construction				Land Loans						
							FHA/VA Bid	Accept	Conventional Bid	Accept	Applications	Issued		Total	1-4 Units	5+ Units	Non-res.		
1979																			
FEB	211	161	63	45	89	295	401	291	2,892	1,304	420	230	80	110	30	4,130	1,640	960	1,530
MAR	508	284	145	114	71	427	350	116	2,680	1,453	470	280	80	110	40	4,620	1,700	1,150	1,770
APR	1,323	638	662	364	517	492	358	363	5,907	1,488	570	300	120	150	50	4,250	1,610	1,230	1,410
MAY	426	185	459	214	503	601	560	572	3,009	1,673	560	330	100	130	60	3,910	1,820	740	1,350
JUN	220	100	358	195	277	462	447	182	3,621	1,860	700	450	110	140	50	4,460	2,060	1,120	1,280
JUL	133	70	94	70	160	517	518	320	6,211	2,032	594	312	121	161	59	4,010	1,870	870	1,270
AUG	162	83	246	184	184	581	636	354	5,105	2,933	734	339	151	244	81	4,553	2,072	1,069	1,412
SEP	1,421	600	527	326	343	437	537	347	4,012	2,640	723	312	86	325	152	4,897	2,101	679	2,117
OCT	2,943	1,130	1,050	431	828	504	552	531	6,509	2,639	784	307	106	371	45	4,487	1,636	1,224	1,627
NOV	558	265	366	190	0	221	458	186	7,410	3,250	640	248	144	248	44	4,632	1,608	1,344	1,680
DEC	649	249	413	152	0	199	403	211	3,539	1,894	647	240	113	294	46	4,741	1,543	937	1,661
1980																			
JAN	516	232	443	247	26	296	279	180	4,265	2,611	603p	233p	100p	270p	26p	4,581p	1,644p	1,249	1,688p
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
APR	494	199	135	66	85	189	231	200	4,509	1,778	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAY	609	214	280	109	62	491	176	391	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

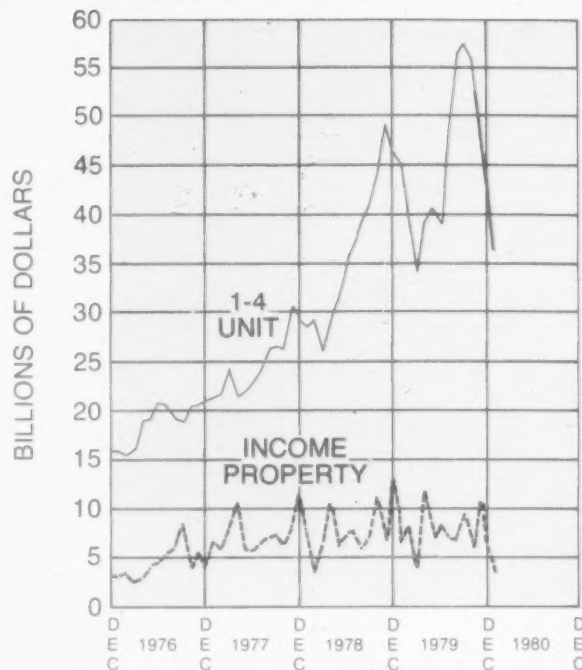
n.a. - Not available, p - Preliminary

*From the National Association of Realtors' "Existing Home Sales" series.

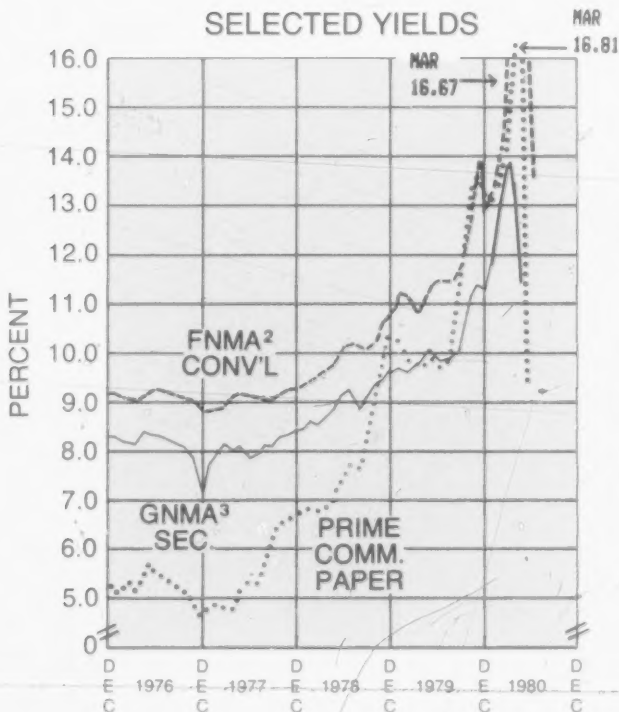
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



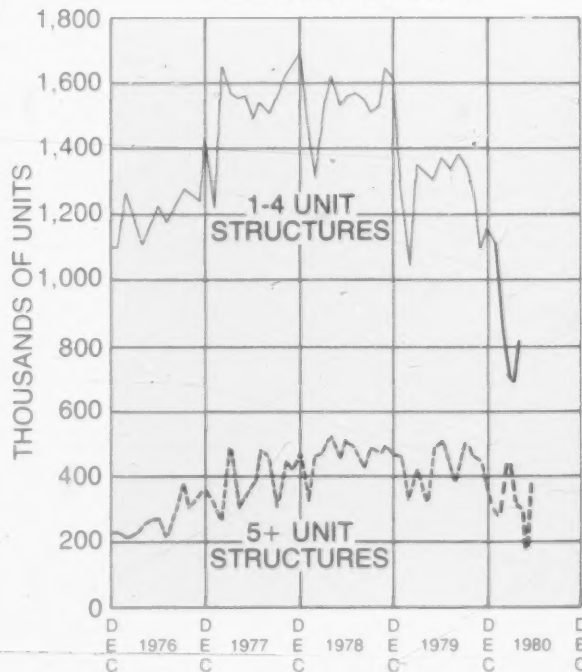
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED⁴



SELECTED YIELDS



HOUSING STARTS⁴



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS' SECURITIES FOR IMMEDIATE DELIVERY.
4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION

MBA—ECONOMICS DEPARTMENT

Mortgage Banker

SEPTEMBER 1980

\$100 BILLION*

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**12 Congressman
Thomas Ludlow
Ashley**



16 GNMA



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THE GNMA MARKET

A *Retrospective*

James J. Connolly

Recently, the GNMA market surpassed the \$100 billion mark. The creation of this liquid forward delivery market in just over ten years has to give a sense of satisfaction to all the parties involved—investors, mortgage originators, dealers, clearing banks, and the Government National Mortgage Association. In addition, this security has helped pave the way for the development of other mortgage securities and has created a better understanding of the credit and value of the single-family mortgage. Because of this security, the mortgage and capital markets are no longer considered mutually exclusive. Today, mortgage securities and even blocks of mortgages themselves are an accepted investment alternative for most fixed income portfolio managers.

These achievements did not come eas-

ily. Bond portfolio managers had to change their accounting and back office support systems and reorient their concept of yield and performance measurement within the context of an immediate and forward delivery market. The Government National Mortgage Association, mortgage originators, dealers, and clearing banks had to set up procedures and standards for trading and clearing a completely different type of security. All of these problems had to be solved in the highly volatile market environment of the seventies. The following is a chronological history of these events, broken down into the three major stages leading to the ultimate maturity of the GNMA security in the marketplace.

GNMA Market (1970-1973)

As with most new markets, the initial period of development for GNMA's was slow and required considerable education for both the issuers (predominantly mortgage bankers) and investors. Fortu-

nately for the GNMA market, its initial phase coincided with a period of monetary ease. This accelerated its acceptance, since the thrift industry was experiencing a high degree of liquidity and limited mortgage loan demand. Since mortgage lending is their primary use of funds, the thrift industry already understood the value of the security and its underlying mortgage collateral. In addition, the booking of real estate qualifying assets, whether in the form of conventional, FHA-VA, or GNMA pass-throughs, was a simple procedure.

Private pension and public retirement systems, on the other hand, were not as receptive. Portfolio managers used this period to study the liquidity in the market, its spread relationships, its accounting idiosyncrasies, and the performance measurement implications of this new security. A study of the outstanding volume and breakdown of investors (see Table 1) vividly portrays the sharp distinction with which different institutions perceived the GNMA pass-through mar-

The author is vice president, Salomon Brothers, New York City.

ket during this 1970-1973 period.

As can be seen, the thrift industry (saving banks, savings and loans, credit unions) held approximately 75 percent of the outstanding issues at the end of 1971. This percentage declined to 60 percent at the end of 1973 as interest rates began to climb. The savings and loan industry, the largest single purchaser of GNMA pass-throughs to this time, began to experience disintermediation and cut its commitments accordingly. With the problem of taking losses preventing any major selling pressure by the thrifts, the market's recognition that a major participant would discontinue its support caused the yield spreads vs. corporates to widen from the narrow points in June and July of 1973.

As the yield spreads widened, the relative value of the GNMA pass-through became very apparent to the non-traditional mortgage investor. Suddenly, the substantial yield pick-ups of September 1973 overcame the conceptual problems that had kept these institutions on the sidelines of the GNMA market.

GNMA Market (1974-1977)

During the brief rally that began in late 1973, the GNMA yield spreads once again narrowed. However, it was not long into 1974 before they began to widen dramatically again. The thrift industry, for all practical purposes, left the GNMA market completely as short-term interest rates rose to historic levels. A bear market usually produces many severe distortions in yield spreads. This was certainly the case in 1974.

Again, as in September 1973, the yield spreads widened dramatically. The flight to quality and the oil-induced problems of utilities contributed to the large spreads vs. long treasuries and the reversal from 1973 to a negative spread on the part of utilities. One of the few categories of institutional investors to take advantage of these aberrations was the pension and retirement funds group. A stable flow of funds, plus more flexibility toward taking bond losses, enabled them to begin participation in the market when others were temporarily forced out due to disintermediation.

From an historical perspective, 1974 marked the beginning of a more balanced participation by all types of institutions. The years 1975 and 1976 saw the return

TABLE 1—GNMA INVESTORS: PERCENTAGE OF TOTALS, 1971-73

Date: Outstanding Volume:	Dec. 1971 \$3.15 Billion	Dec. 1973 \$8.77 Billion
Savings Banks	19.19%	21.56%
Savings and Loans	49.22	33.29
Credit Unions	6.67	5.13
Commercial Banks	3.99	5.70
Pension Funds	5.09	7.06
Mortgage Bankers/Dealers	7.54	10.07
Nominee and others	7.74	15.27
Individuals	0.56	1.92

TABLE 2—GNMA INVESTORS: PERCENTAGE OF TOTALS, 1974-77

Date: Outstanding Volume:	Dec. 1974 \$13.3 bil.	Dec. 1976 \$34.5 bil.	Dec. 1977 \$51.97 bil.
Savings Banks	18.03%	13.02%	11.74
Savings and Loans	30.40	19.62	14.75
Credit Unions	4.01	2.59	2.58
Commercial Banks	5.92	5.34	5.97
Pension Funds	7.72	9.98	11.39
Mortgage Bankers/Dealers	10.58	20.30	17.30
Nominee and others	21.70	28.05	35.04
Individuals	1.64	1.10	1.23

of thrift institutions and commercial banks to the market, while the pension and retirement funds continued to expand their activities in the GNMA market. The 1977 volume figures (Table 2) show a definite shift in percentages from thrift institutions to other investors.

In analyzing these volume figures, it is important to note that the nominee group also encompasses pension and retirement funds and insurance companies, among others. It has been estimated that approximately one-third of the nominee group is made up of pension funds. Also of interest is the growth in the mortgage banker/dealer category. While both could

have large inventories or trading positions, neither can really be considered a permanent investor. This percentage is more representative of GNMA positions in various stages of distribution.

Probably 1975 and 1976 were the most dynamic years in GNMA's short history. More than \$20 billion in new securities were issued, \$5 billion of which came to market on an auction basis. Beginning in January 1975 and ending in December 1976, GNMA, through competing dealer syndicates, held 21 auctions of GNMA's, predominantly 7 $\frac{1}{4}$ s and 7 $\frac{1}{2}$ s. This auction activity, coupled with a surge in the number of issuers, ac-

TABLE 3—GNMA INVESTORS: PERCENTAGE OF TOTALS, 1978-80

Date: Outstanding Volume:	Dec. 1978 \$67.3 bil.	Dec. 1979 \$92.27 bil.	May 1980 \$100.26 bil.
Savings Banks	11.0	9.8	9.7
Savings and Loan	13.7	15.3	15.6
Credit Unions	2.4	2.1	2.0
Commercial Banks	5.9	5.9	5.7
Pension Funds	11.5	9.8	9.5
Mortgage Bankers/Dealers	13.1	6.6	6.2
Nominee and others	41.1	48.9	49.6
Individuals	1.4	1.6	1.7

counted for the inordinately large jump in outstandings during the period. Additionally, in 1976 we were in the midst of a bull market that facilitated an enormous amount of trading activity among all participants. All of this activity created an exceptional degree of liquidity in a market that only a few years earlier had been quoted with a one point spread between bid and ask.

The monthly auctions triggered considerable interest among the public retirement systems, particularly for pools created in their state. Their activity stimulated other developments and led to the use of sophisticated matrix swapping techniques.

At this stage, the GNMA began to mature into a security that is now used as a viable alternative to corporates, treasuries, agencies, other GNMA's, as well as mortgages. The portfolio manager must now consider these factors when measuring the relative value of a particular GNMA transaction.

GNMA Market (1978-1980)

The GNMA market continued to grow rapidly in spite of record setting interest rates. Approximately \$25 billion in GNMA securities were created in 1979 alone, and 1980 promises to be another \$20 billion plus year. Once again, as in the 1973-1974 period, thrift institutions were forced to the sidelines of the market, although this cyclical transition was modified somewhat by the six-month money

market certificate. As in the past GNMA yield spreads tended to widen; however, the lack of thrift participation in the market was not the significant factor. The huge supply of 1979, the snap-up in the intermediate yield curve, a preference for discount GNMA's, and an increasing supply of other mortgage alternatives were the primary factors. During the past six years, the GNMA security has achieved wide acceptance among a broad base of investors, and, as a result, its yield spreads will not be as sensitive to the ebb and flow of a particular institutional investor group (see Table 3).

Another significant development of this period was the application of bond portfolio analysis techniques to the mortgage security market. The first areas to be developed were the concepts of mortgage life and mortgage yield. While investors had become generally aware of the yield impact of fast and slow pay mortgage pools, an in-depth analysis of this area was not begun until the late 70's. Intensive historical research supported by computer applications helped introduce new concepts to measure mortgage yield more accurately. Today, the 12-year prepay life is still used as the trading convention, but it is rapidly being supplemented by other more sophisticated analysis such as "percentage of FHA experience" and "cash flow yield."

The introduction of bond-swapping techniques and more accurate ways of measuring yield were all part of the ma-

turing process for this security. The next step in this process was the creation of a performance measurement index. Portfolio managers subject to performance measurement were one of the last investor groups to fully participate in the GNMA market. While their initial liquidity and accounting objections were gradually overcome, the question of performance measurement took longer to answer. In 1979, Salomon Brothers introduced its Total Rate of Return Index for Mortgage Pass-Through Securities. The index analyzes approximately 28,000 mortgage pools for principal return, interest return, and reinvestment return on a monthly basis. It also provides a bench mark for comparing bond and mortgage security performance. In addition, it can isolate sectors of the mortgage security market that outperformed the total universe of GNMA's, Participation Certificates, and Conventional Pass-Throughs. The combination of actual paydown history with computer applications provided the foundation for sophisticated swap analysis and performance measurement.

Another chapter in the GNMA story began on April 23, 1979, with the introduction of the GNMA Graduated Payment Mortgage (GNMA-GPM). In contrast to the level payment GNMA, the GNMA-GPM calls for an increase in the monthly payment of 7 1/2 percent per year for five years and then continues at this higher payment for the remaining life of the mortgage. Because the monthly payments are not sufficient to cover the debt service of the loan in its earlier years, the shortfall is added to the principal balance as deferred interest. This being the case, the average life of the GPM, assuming no prepayments, is slightly longer than the level payment GNMA and requires different tables.

The GNMA-GPM market has experienced somewhat the same start-up problem as the level payment GNMA. Liquidity and accounting problems, while not entirely valid, seem to be the major investor objections. For example, one can not argue over the market value of GNMA-GPM's. The dollar takeout versus comparable premium coupon level pay GNMA's has traded at over 6 points in 1980. This has to be viewed as an aberration of the transition from a bear to bull market.

The future of the GNMA-GPM looks very promising as originators and first-

time homeowners seek to cushion the monthly mortgage payment. From an investor's perspective, liquidity is improving with over \$3 billion outstanding, and current dollar spreads versus level payment GNMA's more than compensate for any perceived differences. (See "The GNMA-GPM Security—Its Yield and Trading Characteristics," *Mortgage Banker* magazine, September 1979, page 44).

While there were many positive developments during the 1978-1980 period, it also produced the most problems from a supervisory and regulatory perspective. On one hand, the complete flexibility of both an immediate and future settlement market for both mandatory and optional delivery accelerated the expansion of the investor base, trading activity, and liquidity. On the other hand, it led to a series of over-commitments in a limited, but well publicized, number of cases. This led to increased scrutiny from a credit point of view on the part of the dealer community. It also created a series of regulations

The GNMA security stands as a symbol of what our marketplace can achieve in a short time.

from the National Credit Union Administration, the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation. The ultimate outcome of this trend is still under debate, but ideally, the final outcome will strengthen rather than handcuff the creative forces of this market.

Conclusion

The GNMA security stands as a symbol of what our innovative marketplace can achieve in a short period of time. Not only did the market create and distribute over \$100 billion in securities, it developed many adaptations of the basic theme—GNMA standbys, GNMA GPM's, GNMA Mobile Homes, GNMA Construction Loan Certificates, and GNMA Permanent Loan Certificates. It also set in motion a series of transitional steps that guided the fixed income investor from the full faith and credit of the GNMA to the corporate instrumentality guarantee of the Federal Home Loan Mortgage Corporation and finally to the private sectors pooling and hazard insurance of the Conventional Pass-Through Security. Also, it was the catalyst that helped the investor ultimately understand both the nature and credit of the single-family mortgage. Without the GNMA security, this would have required many more years of education. □

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Mortgage Market Trends

Prepared by MBA's Economics Department

August 20, 1980

Not too long ago, it appeared that the economy had taken the initial steps on the road to recovery. In recent weeks, however, various economic indicators have given off mixed signals as to the timing and magnitude of that recovery. This is particularly true for the long beleaguered housing sector.

July witnessed the second straight month of increased activity in housing construction, with housing starts edging up 4.8 percent to a seasonally adjusted annual rate of 1.264 million units. This represents a sharp slowdown from the 33.3 percent rebound recorded in June. While July housing starts reached their highest level since the recession began in February, the level of starts for July 1980 remained 28.2 percent below that of July 1979.

The July increase in housing starts was due entirely to the advance in one-to-four-unit construction. In fact, multifamily residential construction actually declined in July. The strength in the one-to-four-unit sector can probably be attributed, at least in part, to seasonal factors.

Building permits, a harbinger of future construction activity, also increased in July. Permits increased 15 percent to a seasonally adjusted annual rate of 1.24 million units. The continued strength exhibited by building permits would seem to indicate that the past two months' brief recovery in housing activity should continue for at least another month.

The improved construction picture is coupled with an upturn on the sales front. Sales of both new and existing houses have increased markedly in recent months, and the supply of new homes at the current sales rate, a popular inventory measure, dipped to 7.8 months in June. This is a substantial improvement from the 12.5 months supply level experienced last April.

A number of clouds, however, darken the horizon. After declining dramatically in the late spring and early summer, mortgage interest rates have begun to climb again. Interest rates on conventional mortgages rose about 200 basis points between early July and mid-August, when they reached the 13.5 percent range. It would seem that unless this upswing is reversed, it will mitigate against a substantial recovery.

Compounding the problem is the fact that the recent rebound in the 26-week Treasury bill rate caused thrift institutions to lose their competitive rate advantage over commercial banks in selling the popular six-month money market certificates. This development can be expected to have a negative impact on the return of deposits into S&Ls and savings banks—funds that could have flowed into mortgages. Thus, unless some improvement in the housing finance picture develops soon, the recovery in the housing sector will probably prove to be disappointingly weak.

Frances E. Wrocklage, Senior Economist

MORTGAGE MARKET TRENDS—SEPTEMBER 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE (Units in thousands)												VALUE OF NEW CON- STRUCTION PUT IN PLACE (Dollars in millions)				HOUSE SALES (Units in thousands)				
Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate										
	1-4		5+	1-4		5+	1-4		5+	1-4		5+								
	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Units	Units	Total	Unit	Units	Non- Res		Sold	Avail- able For Sale	Months Supply at Current Rate
1979																				
MAR	141	103	38	1,531	1,103	428	153	120	33	1,800	1,394	406	119,211	61,376	14,967	42,868	334	73	416	5.7
APR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364	121,155	59,897	16,943	44,315	333	72	417	5.7
MAY	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452	122,818	59,915	16,915	45,988	371	69	426	6.2
JUN	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511	125,955	60,617	17,802	47,536	344	64	420	6.6
JUL	158	104	54	1,528	1,136	392	164	130	34	1,764	1,352	412	127,697	61,059	17,916	48,722	343	66	421	6.3
AUG	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399	127,149	61,381	17,915	47,853	377	69	419	6.1
SEP	140	90	50	1,778	1,166	609	164	117	47	1,874	1,360	514	128,898	61,308	19,055	48,535	314	62	414	6.7
OCT	141	96	45	1,842	1,064	478	169	122	47	1,710	1,268	442	130,677	60,858	19,005	50,814	329	55	416	7.6
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428	130,358	59,218	19,749	51,391	255	41	409	10.0
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383	132,078	57,753	20,751	53,574	197	34	403	11.8
1980																				
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290	137,295	58,439	22,224	56,632	209	43	393	9.2
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443	130,053	54,463	20,664	54,926	220	44	381	8.7
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336	120,768	48,797	19,628	52,343	243	43	370	8.6
APR	77	54	23	789	536	253	96	71	25	1,030	728	302	113,411	42,980	17,723	52,708	224	36	361	10.2
MAY	77	56	21	825	576	249	92	73	19	913	714	199	108,104	38,057	17,131	52,916	219	43	349	8.1
JUN	100p	69p	31p	1,059p	722p	437p	112p	82p	30p	1,191p	814p	377p	104,081p	35,590p	16,271p	52,220p	233	47p	343p	7.2p
5 months																				
1980	387	272	115				426	314	112								1,115	211		
1979	607	443	164				676	524	152								1,542	324		
1978	666	490	176				771	598	173								1,574	360		
1977	649	492	157				751	606	145								1,405	368		

RESIDENTIAL STRUCTURES, BY REGION (units in thousands)														CONSTRUCTION STATUS (units in thousands)								
Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS		
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate				Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West						
1979																						
MAR	12	25	62	42	143	294	646	448	12	26	75	40	190	368	780	462	1,216	777	439	149	113	36
APR	14	31	51	43	142	297	543	455	15	34	65	47	171	356	692	531	1,228	793	435	142	111	31
MAY	18	37	60	48	181	328	616	493	18	50	72	51	173	396	734	498	1,259	831	438	156	113	43
JUN	18	34	59	45	199	332	636	472	19	24	79	51	178	371	862	499	1,283	837	446	166	130	36
JUL	15	27	51	45	161	281	585	501	18	36	68	43	174	356	763	472	1,080	852	448	151	116	35
AUG	15	30	50	47	147	310	664	533	20	39	74	40	176	388	770	454	1,301	860	441	159	123	36
SEP	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553	1,283	850	433	181	125	56
OCT	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456	1,274	837	437	174	135	19
NOV	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387	1,226	794	432	165	121	44
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399	1,140	717	423	174	139	35
1980																						
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339	1,088	678	410	125	94	31
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333	1,041	644	397	126	89	37
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247	991	609	382	130	90	40
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257	953	588	365	135	93	42
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203	918	570	348	120	87	33
JUN	9p	16p	48p	27p	93p	153p	528p	285p	12p	19p	59p	23p	107p	160p	605p	229p	902p	566p	336p	133p	90p	43p
5 months																						
1980	37	51	191	108					38	56	225	110						636	452	184		
1979	60	111	245	193					59	124	299	195						702	534	168		
1978	61	137	247	221					60	153	336	222						657	530	127		
1977	65	143	222	218					64	160	306	221						569	457	112		

INTEREST RATES AND YIELDS																
Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ⁴	CON- STRUCTION LOANS ⁵ ALL TYPES	FNMA FMS Auction Yields on 4 mo. Commitments ⁶ FHA & A Conv	GNMA Current Securities Yield ⁷	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey		FHLBB Survey								Aaa Utility New Issue	U.S. Gov't ⁸		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA Minus 10-yr Gov't
	FHA New ¹	Conventional		Conventional												
		New	Existing	New	Existing											
1979																
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.90	57	61
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.060	13.23	n.a.	100
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	n.a.	12.855	13.535	11.54	11.53	10.18	9.149	9.49	46	136
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.360	12.946	10.89	10.96	9.78	7.218	8.27	89	111

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.
1979																				
JAN	16,226	3,485	6,228	5,821	692	12,066	3,040	5,384	3,642	73	1,042	241	439	272	90	3,045	204	405	1,907	529
FEB	13,558	3,045	5,290	4,308	843	9,936	2,387	4,669	2,880	86	893	225	337	180	151	2,572	434	284	1,248	606
MAR	16,075	2,989	7,036	4,900	1,150	12,207	2,498	6,203	3,521	85	1,041	234	417	285	105	2,827	257	416	1,194	960
APR	16,902	3,203	7,757	4,977	965	13,106	2,562	6,954	3,507	143	1,101	310	440	232	119	2,635	331	363	1,238	703
MAY	19,228	2,935	9,576	5,735	982	15,349	2,551	8,556	4,187	55	960	100	590	212	58	2,920	285	430	1,336	869
JUN	21,600	3,162	9,859	7,272	1,307	17,157	2,635	8,995	5,420	107	1,249	294	484	224	247	3,193	232	380	1,628	953
JUL	20,460	3,498	8,412	7,314	1,236	16,096	2,858	7,705	5,407	126	1,043	309	377	264	93	3,322	332	330	1,643	1,017
AUG	21,287	4,232	9,018	6,800	1,237	17,298	3,602	8,289	5,193	214	1,083	217	375	342	149	2,906	413	354	1,265	874
SEP	18,956	3,955	7,738	5,820	1,443	14,395	3,032	7,012	4,113	238	1,254	469	351	263	171	3,306	453	375	1,444	1,034
OCT	21,394	4,141	8,879	6,869	1,505	16,913	3,690	7,994	5,009	220	921	91	488	191	151	3,560	360	397	1,669	1,134
NOV	18,362	3,526	7,230	6,175	1,431	13,823	2,833	6,480	4,260	250	831	148	338	223	122	3,708	545	412	1,692	1,059
DEC	15,040	3,338	5,223	5,018	1,461	11,801	2,552	4,584	3,338	427	792	130	270	251	141	3,346	655	369	1,429	893
1980																				
JAN	12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,589	2,703	168	588	82	208	204	94	2,816	236	273	1,166	1,141
FEB	11,975	2,733	4,281	3,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
MAR	14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	1,475	1,040
APR	12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

MORTGAGE INSURANCE

(Units in thousands, dollars in millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH					APPLICATIONS RECEIVED UNITS			INSURED							
	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	FHA	VA	Private	Total	FHA (203)	VA	Private	Units	Am't	Units	Am't
1979																					
JAN	74,425	15,750	23,700	11,120	23,855	13,169	3,687	5,387	2,375	1,720	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	75,584	15,184	24,960	11,435	24,005	12,888	3,344	5,959	2,250	1,335	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	79,191	15,430	27,707	11,390	24,664	17,121	3,853	8,608	2,543	2,117	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	79,095	12,675	29,054	12,054	25,312	18,058	3,433	9,428	3,287	1,910	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	84,252	14,123	30,140	13,016	26,973	20,870	3,803	10,387	3,776	2,904	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	84,305	13,676	29,350	13,155	28,124	18,739	3,163	9,003	3,857	2,716	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	86,870	16,501	28,818	12,817	28,734	20,028	3,547	8,167	3,266	5,048	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	85,014	14,153	28,379	13,195	29,287	19,816	3,466	8,852	3,335	2,163	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	85,090	14,619	28,373	11,974	30,124	16,809	4,073	7,730	2,530	2,476	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	83,042	14,258	27,084	11,493	30,207	16,943	4,014	7,992	2,916	2,021	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980																					
JAN	67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540	90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
FEB	68,818	12,333	21,351	9,717	25,477	9,400	2,046	5,017	1,637	700	91	63	28	71	3,153	21	753	26	1,301	24	1,099
MAR	66,122	11,974	20,424	9,215	24,509	9,924	2,372	4,782	1,850	920	101	61	40	74	3,371	18	696	27	1,329	29	1,346
APR	60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739	90	58	32	76	3,473	20	746	23	1,149	33	1,578
MAY	58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390	101	76	25	56	2,608	13	483	17	848	26	1,277

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

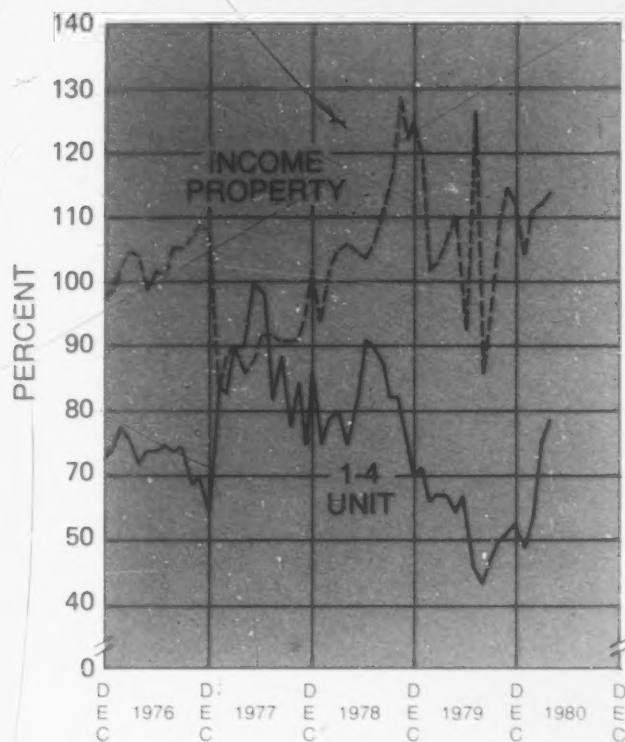
MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

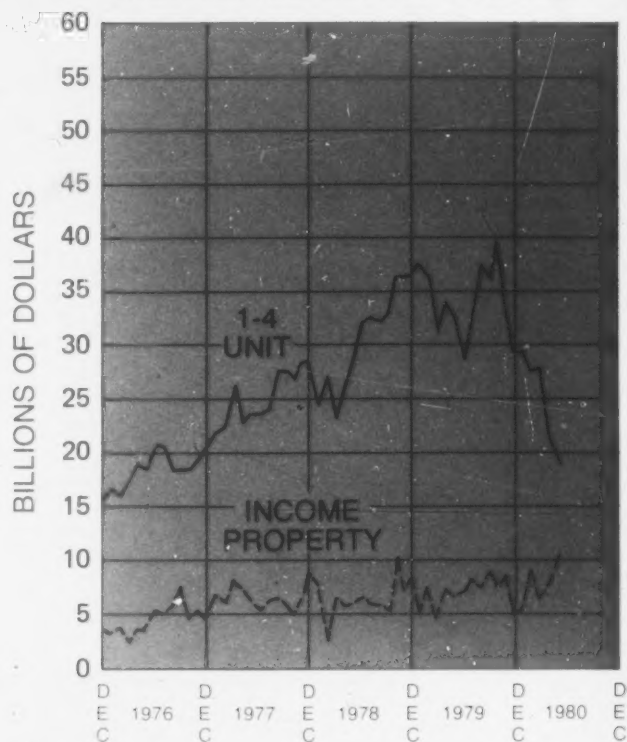
Year and Month	FNMA				FHLMC			GNMA		DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	4-Month Commitments							Pass-Through Securities										
	FHA/VA Bid	Conventional Accept	12 Month Convert Standby		Comm	Purc.	Sold	Applications	Issued	Total	1-4 Units	5+ Units	Non-res.	Land Loans	Total	1-4 Units	5+ Units	Non-res.
1979																		
MAR	508	284	145	114	71	427	350	116	2,680	1,453	174	102	31	41	4,690	1,516	1,358	1,816
APR	1,323	638	662	364	517	492	358	363	5,907	1,488	205	115	40	51	3,626	1,227	978	1,421
MAY	426	185	459	214	503	601	560	572	3,009	1,673	201	121	34	46	3,620	1,390	805	1,425
JUN	220	100	358	195	277	462	447	182	3,621	1,860	242	154	38	50	3,907	1,542	1,030	1,335
JUL	133	70	94	70	160	517	518	320	6,211	2,032	242	127	49	65	3,721	1,305	950	1,466
AUG	162	83	246	184	184	581	636	354	5,105	2,933	277	128	57	92	4,048	1,562	1,335	1,151
SEP	1,421	600	527	326	343	437	537	347	6,502	2,640	285	119	40	127	3,764	1,617	860	1,287
OCT	2,943	1,130	1,050	431	828	504	552	531	6,509	2,639	302	118	41	143	4,153	1,261	1,559	1,333
NOV	558	265	366	190	0	221	458	186	7,410	3,250	216	84	49	84	4,815	1,229	2,015	1,571
DEC	649	249	413	152	0	199	403	211	3,539	1,894	249	92	44	113	3,552	1,082	981	1,489
1980																		
JAN	516	232	443	247	26	296	279	180	4,265	2,611	231	84	42	105	3,554	1,196	1,079	1,279
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354	207	80	49	78	4,512	1,160	1,652	1,700
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125	259	91	46	121	4,272	1,201	1,585	1,486
APR	494	199	135	66	85	189	231	200	4,509	1,778	191	71	40	81	3,484	1,104	1,042	1,338
MAY	609	214	280	109	62	491	176	391	5,281	1,127	209	88	47	74	4,254	965	1,789	1,500
JUN	603	267	170	76	92	577	225	230	6,627	1,320	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.-Not available; p-Preliminary

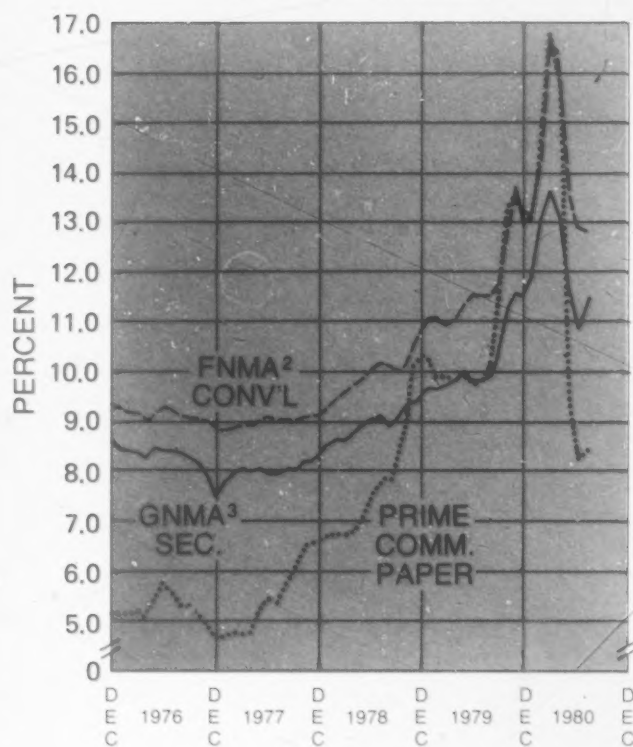
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



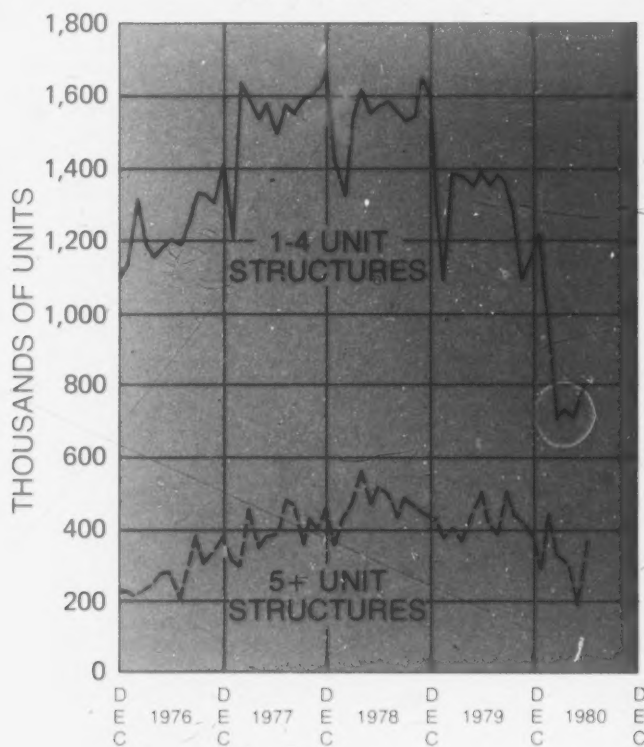
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED⁴



SELECTED YIELDS



HOUSING STARTS⁴



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS. MULTIPLIED BY 100.

2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.

3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.

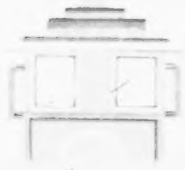
4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

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Mortgage Banker

OCTOBER 1980



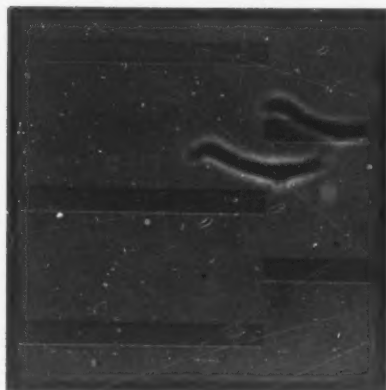
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CONFERENCE/ANNUAL SERVICE
SRI/ACQUISITIONS
7101 WISCONSIN AVE
WASHINGTON
DC 20014

San Francisco

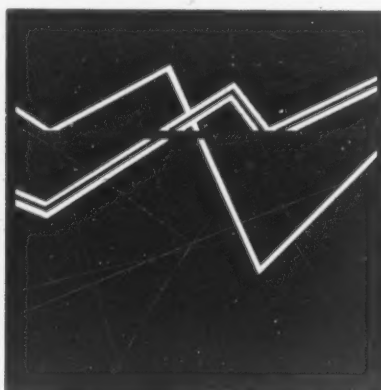
Annual MBA Convention
October 26-29, 1980

Mortgage Banker

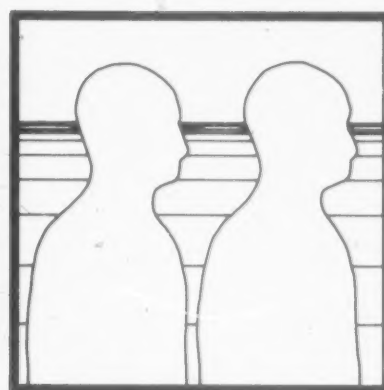
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Editor, John T. Aquino
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CAPITAL ADEQUACY

and the
Mortgage
Banker

Schuyler E. Schell

Capital adequacy is of growing concern to mortgage bankers, as well as to permanent investors and other secondary market entities who rely on mortgage bankers' services and solvency. While in the past the vast majority of mortgage bankers have been able to maintain a more than adequate capital position, the likelihood of future vigorous growth, together with persistent economic uncertainty will necessitate the continuous monitoring and reappraisal of a firm's capital requirements and sources.

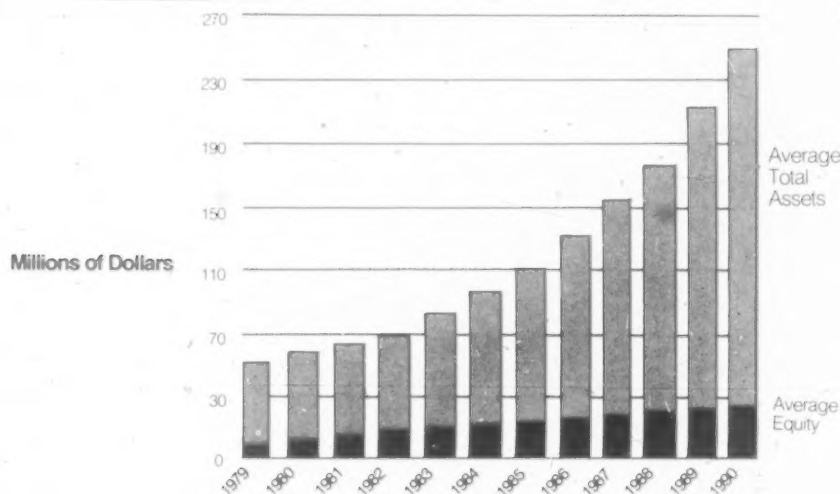
Adequate capital is important to mortgage bankers for a variety of reasons. In the initial start-up of a firm, and in its expansion into new areas and activities, capital is necessary to acquire the phys-

The author is MBA's economist.

Author note: This article is not an exhaustive review of the entire capital adequacy issue. Instead, it is intended to briefly review the issue and pose questions that are best addressed in industry forums, such as the Capital Adequacy Panel at the MBA Annual Convention in San Francisco.

Figure 1

Projected Trends in the Average Mortgage Banking Firm's Asset and Equity Growth¹ 1979-1990



¹This projection is based on the Average Firm's Asset Growth and Average Leverage Ratio between 1970-1978.

ical, as well as the skill base, to compete successfully in a fast-swelling marketplace. During the past decade, and in the coming decade as well, the demand for mortgage credit has and will continue to expand to unprecedented levels. Aggregate annual residential mortgage loan origination volumes increased from \$36 billion in 1970 to over \$187 billion by 1979; these volumes are expected to more than double in the coming decade. The competition between lenders to capture an ever larger slice of this fast swelling market will be keen in the years to come.

Capital needs in the 1980's

As mortgage bankers continue to grow with the entire mortgage market,¹ their need for capital will also expand markedly. To get a rough idea about the mortgage banker's capital needs in the coming decade, the average firm's total assets and equity are projected in Figure 1. Between 1970 and 1978, the average firm's total assets increased at an average 16.9 percent annual rate. This rate of increase reflects bad years such as 1974-75, when assets actually decreased by 10 percent, as well as good years such as 1977-78, when assets jumped over 25 percent. The growth in assets has been phenomenal, going from \$12 million just ten years ago to perhaps \$243 million by 1990. To

maintain the average leverage factor (the relationship between average assets and average equity), which was 9.63 between 1970 and 1978, the average firm's equity will have to expand markedly in coming years. This equity will have grown from just under \$2 million in 1970 to a projected \$25 million in 1990.

It is this tremendous growth in the real estate industry in general and mortgage bankers' asset and capital accounts in particular that has to be addressed by all participants in the mortgage banking industry. We must plan now for the remarkable expansion that will be evolving in coming years.

Adequate capital is needed for more than just a firm's start-up and expansion; it is also required as a cushion to absorb losses, enabling mortgage bankers to continue operations in periods of difficulty until a normal level of earnings is restored. Capital also tends to inspire investors' confidence that mortgage bankers will be able to continue their services under adverse conditions.

Even though the mortgage banking industry is on the brink of a very expansive decade, it does not appear that adverse economic conditions are a thing of the past. The second quarter decline in real GNP in 1980, expected to be in the neighborhood of nine percent, bears witness to that fact. Even as the recession with which the 1980's began is eventually replaced by an economic expansion of impressive magnitude, recurring productive capacity limitations, energy crises,

and credit crunches, as well as a lingering aura of uncertainty, will make re-emerging adverse economic conditions a distinct possibility.

The industry's strength

In certain respects mortgage bankers weather adverse times much better than their competing financial institutions. In fact, in such times mortgage bankers usually are able to expand their share of the aggregate residential loan market. In terms of the market share of originations, the mortgage bankers' portion has moved inversely with trends in aggregate lending activity. After the 1969 recession, mortgage bankers had about 25 percent of the residential loan market, second only to S&Ls. This share dropped during the boom years of the early 1970's, until the 1974-75 recession when it inched above 20 percent once again. During the ensuing expansion, between 1976 and 1978, this share fell to a low point of 16 percent—well behind S&Ls and even commercial banks. However, in 1979, on the eve of recession, and in response to growing mortgage banker conventional lending activity and some usury impacts, mortgage bankers' share of residential originations was almost 25 percent for the year. This came at a time when all the other major lenders—S&Ls, commercial banks, and mutual savings banks—experienced a decline in their residential market share. While most lenders, in times of tight credit, have seen

¹Dr. Thomas R. Harter and Schuyler E. Schell, "Mortgage Banking in the 1980's," *Mortgage Banker* (April 1980), p. 29.

Table 1

Assets and Net Worth of Commercial Banks, Savings Associations, Mutual Savings Banks and Mortgage Companies Each December 31, 1969 to 1979

Year	Commercial Banks			Savings Associations			Mutual Savings Banks			Mortgage Companies		
	Total Assets	Total Capital Accounts	Capital to Assets	Total Assets	Net Worth	Net Worth to Assets	Total Assets	General Reserves	Reserves to Assets	Total Assets	Net Worth	Net Worth to Assets
	(\$ billions)		(percent)	(\$ billions)		(percent)	(\$ billions)		(percent)	(\$ billions)		(percent)
1979	\$1,351.0	\$105.8	7.8%	\$579.3	\$32.6	5.6%	\$163.4	\$11.5	7.0%	\$16.4e	\$1.9e	11.6%
1978	1,268.6	93.6	7.4	523.5	29.1	5.6	158.2	10.9	6.9	14.6	1.7	11.6
1977	1,166.0	85.8	7.4	459.2	25.2	5.5	147.3	10.0	6.8	13.0	1.5	11.5
1976	1,030.7	78.1	7.5	392.0	22.0	5.6	134.8	9.1	6.7	11.6	1.3	11.5
1975	964.9	69.1	7.2	338.2	19.8	5.8	121.1	8.4	7.0	10.5	1.1	10.7
1974	919.6	63.7	6.9	295.5	18.4	6.2	109.6	8.0	7.3	12.7	1.2	9.9
1973	835.2	58.1	7.0	271.9	17.1	6.3	106.6	7.6	7.1	13.0	1.2	9.2
1972	739.0	52.7	7.1	243.1	15.2	6.3	100.6	7.0	6.9	10.5	1.0	9.9
1971	640.3	47.2	7.4	206.0	13.6	6.6	89.6	6.3	7.1	7.8	0.9	11.5
1970	576.2	43.0	7.5	176.2	12.4	7.0	80.0	5.7	7.2	5.3	0.7	13.7
1969	530.7	40.0	7.5	162.1	11.6	7.2	74.2	5.5	7.5	4.7	0.6	13.7

e: Estimated

Source: Federal Home Loan Bank Board, Federal Reserve Board, Mortgage Bankers Association of America and National Association of Mutual Savings Banks.

their sources of mortgage funds, primarily savings deposits, dissipate through disintermediation, mortgage bankers, through their broad access to the credit market and particularly through their extensive use of the secondary market, have been able to maintain their lending activity.

Compared with these other lenders, mortgage bankers' capital accounts would appear more than adequate; in fact, mortgage companies as a group have a higher capital ratio than those other institutions. This point, which was discussed in depth in the February 1978 *Mortgage Banker*,² is worth reiterating. In recent years, the ratio of owner's equity to total assets has been much higher for the mortgage banking industry than for its competition, the depository institutions. Between 1969 and 1979, except for the boom year of 1972 and the inflation-recession years of 1973-74, the mortgage banking industry's capital ratio has been near or above 11 percent. The comparable ratio at the other institutions, on the other hand, usually ranged between 6.5 and 7.5 percent during that 11-year period (see Table 1).

Another point worth reiterating is that the equity figures reported on the mortgage banker's balance sheet do not include an extremely valuable part of their operations: the value of their servicing portfolios of single-family mortgages. This servicing represents a very dependable future stream of income to a mortgage company. However, the value of

this servicing is not included on the balance sheet and is, therefore, an unstated equity for the industry.

The precise value of this capital asset is difficult to compute. An imprecise industry rule of thumb states that the value equals one percent of servicing volume. Using this rough measure, the net worth of the mortgage banking industry at year-end 1979 would be increased \$1.9 billion. This would boost the equity of the mortgage banking industry from approximately \$1.9 billion to \$3.8 billion at the end of 1979, which would be nearly 25 percent of industry assets.

Adverse conditions

The mortgage banking industry's strength relative to its competitors under adverse conditions does not mean that it is without problems. On the contrary, under such conditions mortgage bankers are often placed in a definite earnings squeeze. This is particularly true during credit crunches, when fast-rising interest rates wreak havoc with mortgage bankers' profitability. Their financing of loan inventories with substantially short-term debt becomes quite a drain during periods of inverted yields (short-term rates above long-term). This is especially true when the FHA/VA interest rate has been suppressed far below the market rate.

²P. E. Kidd and J. M. Wetmore, "Mortgage companies have higher capital ratios than other financial institutions," *Mortgage Banker* (February 1978), p. 60.

The 1978 comparative income statement in the MBA publication *Financial Statements and Operating Ratios* illustrates the significant impact of interest income and expenses for the mortgage banker. Interest income in 1978 accounted for 41 percent of the total income generated by the average firm, and interest expense accounted for almost 38 percent of total operating expenses. The income generated by interest is by far the greatest source of the average firm's revenues. In 1978, interest income was 87 percent greater than origination income and 58 percent more than loan administration income. Also, interest expenses accounted for more than 56 percent of the total non-personnel expenses of the average mortgage banking firm during 1978. During periods of inverted yield, the negative net income that is generated places a great drain on the mortgage banker. And the mortgage banker's leverage magnifies these problems even further.

The relatively high degree of financial leverage employed by mortgage bankers, while not as great as commercial banks or savings and loan associations, is fairly typical of financial institutions. This relatively high degree of leverage among financial institutions is a major cause of the relatively high degree of fluctuation in the return on equity for such institutions.

Another consequence of adverse economic conditions is a weakening loan demand, and mortgage bankers are subject to wide swings in profitability if and when activity levels fall. Under such

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A condominium is a form of ownership in which you own your unit as well as an interest in the common property and community facilities. Condo fees are charged to each owner for the upkeep of the common property and payment of other common expenses. Condos can be any size or style, including apartments, townhouses and even single family homes.

WHO'S BUYING CONDOS?

The list of condo owners includes all kinds of people—single and married, young and elderly, with and without children, suburbanites and city dwellers.

The children of the post-war baby boom, now in their 20s and 30s, are already house hunting in force, or will be soon. With higher house prices and fewer rental units available, many of these people will be looking at condos.

COST AND RESALE VALUE

In 1979, the average price of a condo was about \$57,000, compared with about \$65,000 for a new single family home. And the resale value of condos has been increasing almost as quickly as the resale value of houses.

FINANCING A CONDO

Financing a condo is like financing a house in most respects. Whether you qualify for a mortgage depends on many factors: your income, your credit history and the prevailing interest rates.

You may have to shop around a little more for condo financing, because not every lender will be interested in making a loan in the condo community where you want to buy. The lender is, in a sense, investing in the whole condominium, not just in your unit, so he must research and evaluate the entire project. It may not be worth the time and expense for only one loan.

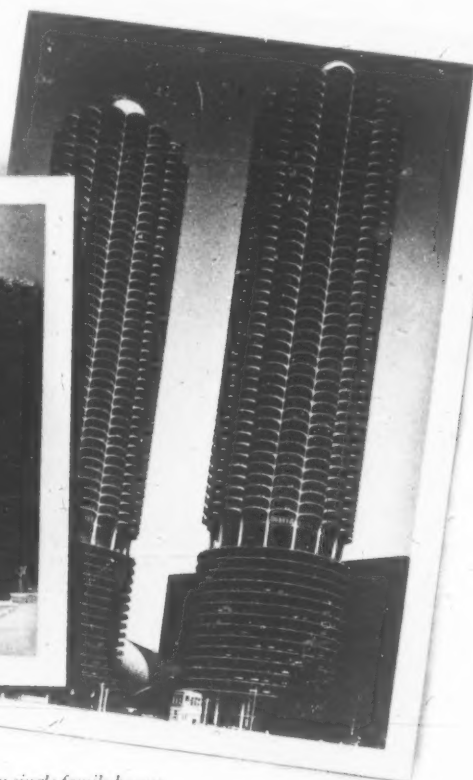
OUR ROLE

That's where we come in. We're Fannie Mae, the Federal National Mortgage Association. Since 1974, we've been involved in the condo market, helping lenders establish criteria for condos and even doing some of the evaluation for them. And of course we buy mortgages on condo units, thus making more funds available for home buyers who choose the condo alternative.

ADVANTAGES AND DISADVANTAGES

Before you buy into a condo, weigh the advantages and disadvantages. Owning a condo unit entitles you to all the tax benefits of homeownership: your mortgage interest payments and property tax can be deducted from your taxable income. And you're relieved of many responsibilities: the condo's management company usually maintains the exterior of the building and grounds.

But remember, condos aren't for everyone. Despite individual ownership of the units, you're only one of many voting members in the condo community. The majority rules on such matters as whether pets are allowed and what alterations you can make. You have to be prepared for the compromises that go along with condominium living.



Condos range in style from townhouses like these in Birmingham, Alabama, to high rises such as Marina City in Chicago. Condos are often less expensive than single family houses.

QUESTIONS WORTH ASKING

Condo ownership can be somewhat more complex than home ownership. So ask a lot of questions about how the condominium is managed, about the builder's reputation, about the quality and condition of the plumbing, electrical and heating systems. Make sure the condo's budget provides an adequate reserve fund for unexpected major expenses (a leaky roof, a bad furnace, etc.).

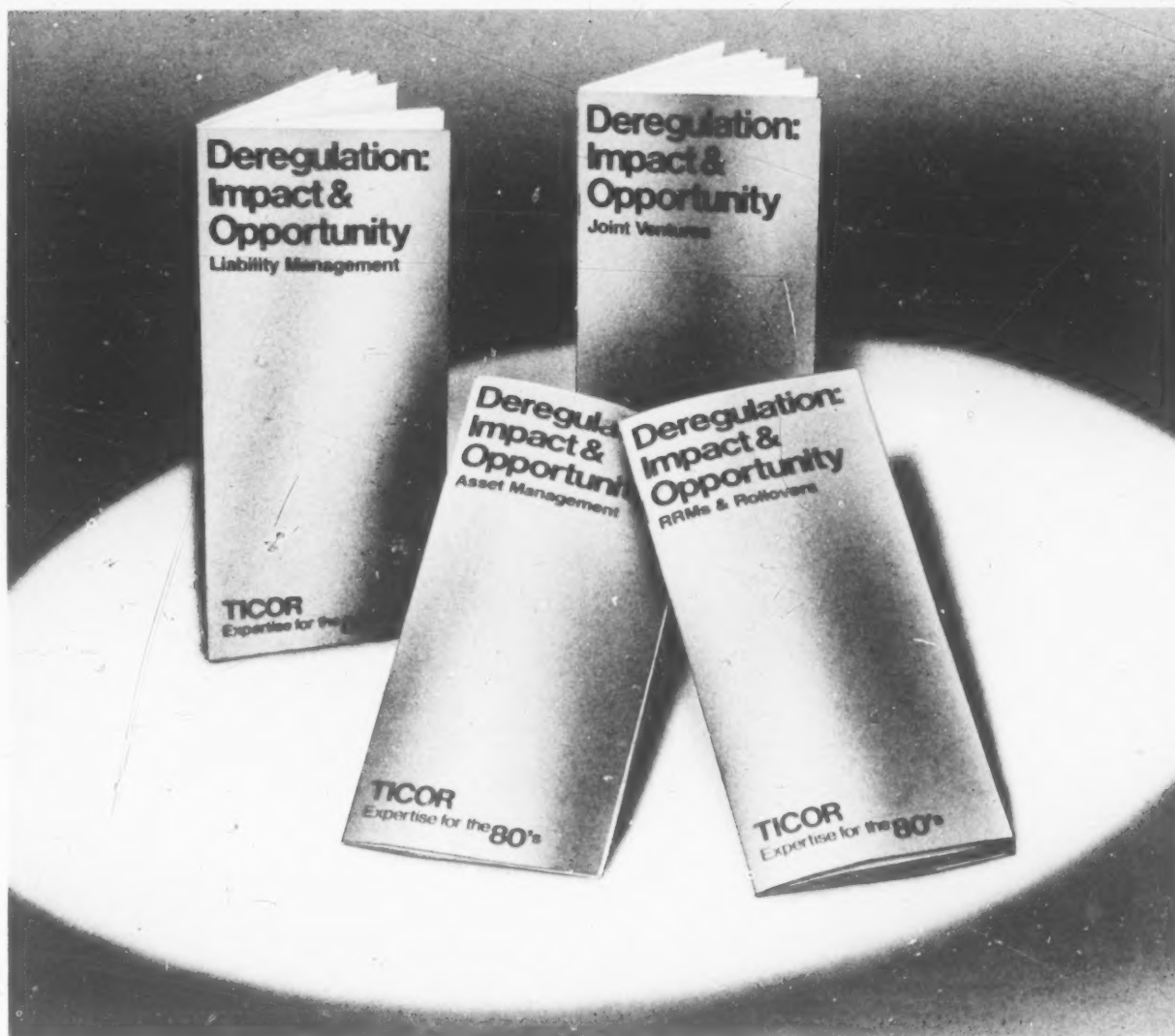
It is a good idea to have a knowledgeable attorney go over the key legal documents with you. You don't want to be surprised after you've signed on the dotted line.

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conditions; concurrent with the decline in activity, the mortgage bankers' financing costs are probably increasing and loan losses growing. Similarly, when interest rates are low, the mortgage bankers' level of activity increases and their financing costs decline. Therefore, the nature of the business is such that the mortgage banker must rely on volume as the principal marketing variable rather than price (servicing and origination fees), because prices are basically administered through FHA and VA, and, hence, are largely uncontrollable.

Under conditions of declining loan demand and, especially, profitability, the primary function of capital is to provide time for the firm to absorb losses. The need to liquidate assets and take losses is of primary importance in the determination of capital adequacy. It is not the loss in asset value alone that calls for adequate capital. Rather, it is the combination of asset losses and liquidity pressures that forces taking losses at a time and in amounts too large for earnings to absorb.

So, mortgage bankers do experience an earnings squeeze under certain adverse conditions, and they definitely need capital to cushion these times; however, the question of capital adequacy for any individual firm can only be answered by that firm and cannot be properly generalized. Every mortgage banking company must determine the necessary level of capital in relation to many diverse elements. Among the more important factors to examine are the following:

1. earning power under adverse conditions
2. liquidity needs under adverse conditions;
3. quality and likely deterioration of quality in the assets held;
4. alternative sources of new capital;
5. owners' aversion to risk of failure; and
6. requirements for participation in various markets, such as FHLMC, FHA, GNMA, and FNMA.

Capital requirements

Regardless of the fact that capital ade-

Under conditions of declining loan demand and profitability, the primary function of capital is to provide time for the firm to absorb losses.

quacy cannot be properly generalized, regulators have, over the years, mandated a variety of capital requirements for mortgage bankers. The FHA's criteria for a fully-approved mortgagee require sound capital funds properly proportioned to its liabilities of not less than \$100,000 invested in assets acceptable to the FHA. In order to retain FHA's approval, the mortgagee must, at all times, maintain a net worth of at least \$100,000. These requirements also affect mortgage bankers' dealings with GNMA and FNMA.

Recently, these net worth requirements were further elaborated with the FHLMC requirements for HUD-approved mortgagees as eligible sellers. The FHLMC eligibility requirements call for the maintenance of an adjusted net worth that is the greater of \$100,000, or the amount calculated as the "Benchmark Net Worth," which mandates different equity ratios by asset risk categories. FHLMC places further constraints on net worth by requiring adjustments or deletions of non-qualifying assets. Another eligibility requirement calls for the potential seller to have a leverage ratio of total assets to adjusted net worth not exceeding 25 to one. To cap off their eligibility requirements, FHLMC also has several liquidity tests.

Another set of net worth and liquidity requirements that will soon concern mortgage bankers relates to the criteria involved in the rating decisions made by Standard and Poors and others in the investment community with regard to mortgage bankers' issuance of mortgage-related financial instruments. Some of the larger mortgage companies have used the collateral trust note (CTN) to access the public market for capital. These notes mature in 270 days or less and are secured by a pool of collateral consisting of mortgage loans. This type of financing is attractive to mortgage bankers because it offers them an alternative to bank borrowing and enables them to take advantage of rate differentials. The size of the mortgage company seeking to issue CTN's is an important consideration in Standard and Poors' rating process.³ S&P believes that there are a number of serious drawbacks in dealing with smaller companies: a likely lack of geographical diversity or, if not, difficulty in con-

trolling widespread operations. Such considerations as "competitive posture, auditing, controls, planning, and management depth" are thought by S&P unlikely to compare favorably to those of larger firms. Therefore, S&P prefers that a potential issuer have a minimum of \$5 million in equity to be considered for an investment grade rating. This preference is, however, qualified by the fact that where small mortgage bankers have the backing of a stronger parent the same rating concerns may not be present. Also, if the notes were issued by a special purpose corporation and backed by a pool of mortgages from several originators, the size of each individual originator could be less important. Mortgage bankers' equity positions will also be rigorously scrutinized as they become more involved in the issuance of conventional mortgage-backed pass-through securities.

Mortgage bankers should ask themselves whether or not they are satisfied with the multitude of net worth and liquidity requirements that are mandated in so many areas of the market. If they are not satisfied, then what changes in regulations, and within mortgage bankers' capital accounts as well, can be made to reach some satisfactory regulatory balance?

In seeking maximum returns, mortgage bankers will minimize capital to gain the greatest leverage in earnings. Permanent investors and other purchasers of the mortgage bankers' wares, on the other hand, desire mortgage bankers to have a maximum amount of capital as a protection against risks; so, while capital adequacy requirements are based on valid concerns, the proliferation of regulations tends to increase costs and decrease profitability. Such regulation has a particularly stifling effect on innovation by increasing the cost involved in any nontraditional technique. New types of operations and the hiring of potentially innovative personnel are expensive propositions involving high start-up costs that should be viewed as investments rather than expenses.

Caveats to capital expansion

In coming years, the mortgage banking industry should expand its capital base through expanded private placements of long-term debt and especially through the greater marketing of equity. Some mortgage bankers have, in effect, accomplished this by affiliation with other institutions. A number of caveats should, however, be considered with respect to the capital base expansion.

The multitude of debt and equity alter-

³Standard and Poors, "S&P's Approach to Rating Mortgage Related Financings Issued by the Private Sector," *Fixed Income Investor*, August 26, 1978.

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natives offers a wide mix of options for capital expansion. However, each alternative has its disadvantages as well as its advantages. Mortgage banking firms, in structuring their capital expansion, will have to decide, among other things, how much, if any, control they are willing to yield and how much profit they are willing to share with an expanded group of stockholders.

The financial attractiveness of long-term debt financing lies in the additional leverage provided by such securities. Under adverse conditions, though, a long-term fixed-payment debt instrument works directly opposite to the true function of capital. Under such conditions, mortgage bankers using debentures and notes as capital base will retain the fixed charges imposed by such instruments and, thus, reduce their ability to absorb losses from current earnings. While debt expands the capital base without a concurrent expansion of ownership, the indenture associated with this debt may place a number of constraints on management's future borrowing plans.

The sale of common stock, on the other hand, while not mandating fixed charges like bonds, does diminish the original owner's control. Besides sharing in ownership, common stock also results in the sharing of profits. Nonetheless,

without an expanded equity base, there may be nothing left to share.

Of course, there are still more alternatives: preferred stock, while lacking the tax benefits (interest expense deduction) of debt and while often requiring a higher yield than comparable bonds (to compensate for the fact that dividends, while they may be cumulative, are not mandated) will avoid the obligation of fixed payments during adverse business conditions. Such stock usually also avoids both participation in earnings beyond the fixed dividend, and, perhaps most importantly to some mortgage bankers, avoids the loss of control by lacking or seriously limiting voting rights. And so, depending on the present owners' aversion to sharing both control and profits, the higher costs associated with preferred stock relative to many other capital sources may be well worth it.

Mortgage bankers, where they are able, should carefully consider and utilize the many diverse forms of debt and equity alternatives in seeking to expand their capital base, while at the same time attempting to minimize their overall cost of capital. In so doing, they should also be able to strike a balance between the expansion of their capital base and the dilution of both control and profits occasioned by an expanded ownership base.

In further exploring and defining the capital adequacy issue, mortgage bankers should consider:

1. What are appropriate ways to measure capital adequacy for the diverse mortgage banking industry?
2. Are the capital requirements for participation in various markets, such as FHLMC, FHA, GNMA, and FNMA reasonable?
3. How can mortgage bankers best expand their capital base, and at the same time minimize the loss of management control?
4. What effect will capital adequacy have on mortgage bankers' expansion into ancillary activities such as joint-ventures?

The Capital Adequacy Subcommittee of MBA's Long-Range Planning Committee will present a panel on these issues at the October Annual Convention. It is hoped that many of the questions raised in this article and by the panel will soon be addressed and answered by the mortgage banking industry. Only by answering these questions can the mortgage banking industry expect to maintain its presently adequate capital position in the years to come. □

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The Historical Performance of Mortgage Securities:

1972-1980

Michael Waldman and
Steven P. Baum

The tremendous growth of mortgage pass through securities in the 1970's, and their acceptance as an investment vehicle by not only thrift institutions but also by a wide variety of institutional investors, led Salomon Brothers to introduce a total rate-of-return index for these securities in March 1979.¹ This Index allowed investors to compare the performance of mortgage pass throughs with alternative fixed income investments and to compare the performance of their pass through portfolios with the "market average" return.

Initially, the Index covered periods beginning with January 1, 1978. However, the Index has recently been back-dated to cover periods beginning with January 1, 1972, for GNMA pass throughs, and January 1, 1977, for FHLMC PC's. The start date for conventional pass throughs remains January 1, 1978.

The purpose of this article is to present the results of the back-dated Index, and to analyze these results over the various market cycles between 1972 and the present. Comparisons are then made between the Mortgage Index and the Salomon

Brothers High-Grade Corporate Bond Index, as well as long and 10-year Treasury securities. Finally, some of the relative performance differences within the mortgage pass through market are discussed.

The results show that the mortgages outperformed the three alternative investments: corporate bonds by 15.3 percent over the period January 1972 through March 1980; long Treasuries by 21.7 percent over the period September 1974 through March 1980; and 10-year Treasuries by 2.4 percent over the period January 1977 through March 1980.² The main reasons for this return advantage of the mortgage pass throughs are their shorter maturity (versus the corporates and long Treasuries) during a period of generally rising rates, and their higher yield (versus both the long and 10-year Treasuries), especially when the full value of prepayments for discount pass throughs is taken into account.

The back-dated mortgage pass through index

The Mortgage Index covers single family GNMA, FHLMC, and conventional mortgage pools. The total return of the Mortgage Index is made up of three parts: principal return, interest return, and reinvestment return. The principal return component is further divided into price move and the return resulting from the principal payoff (including any prepayments). Since prepayments on mortgages are statistically uncertain, Salomon

Brothers maintains a data base of monthly paydowns on all mortgage pass throughs. Thus, the payoff return over any holding period reflects the actual principal payments on all pools covered by the Index. Reinvestment is "back into the market," i.e., each month's payment of principal and interest is reinvested into the pass through market in amounts weighted by the overall composition of the market that month. For a detailed discussion of the scope and methodology of the Index, see "Introducing the Salomon Brothers Total Rate-of-Return Index for Mortgage Pass Through Securities."

The dimensions of the back-dated Index are shown in Table 1. The Index currently covers about 28,000 pools, representing approximately \$90 billion in original face amount. (This is about 90 percent of the total of all outstanding mortgage pass through pools—the difference arises in large part because the Index does not cover "odd coupon" pass throughs for which there are no regularly available price quotes or non-single family pass throughs.)

The Index now covers GNMA's from the beginning of calendar year 1972. Since payoff figures for GNMA's were not available until March 1972, it was assumed that the paydowns for January and February of that year were at the same rate as in March. With this exception, the Mortgage Index is based entirely on historical paydowns, prices, and market compositions. FHLMC PC's are first included in the Index in January

Mr. Waldman is vice president and Mr. Baum with the Bond Portfolio Analysis Group at Salomon Brothers, New York City. © Salomon Brothers 1980.

Author note: Although the information in this article has been obtained from sources that Salomon Brothers believes to be reliable, we do not guarantee its accuracy and such information may be incomplete or condensed. All opinions and estimates included here constitute our judgment as of this date and are subject to change without notice. The article is for information purposes only.

¹Michael Waldman, "Introducing the Salomon Brothers Total Rate-of-Return Index for Mortgage Pass Through Securities," Salomon Brothers, March 15, 1979.

²The reason for the shorter comparison periods versus the Treasuries is the lack of comparable Treasury issues during the first part of the 1970's.

1977, when FHLMC first started using a dealer network to distribute its PC's, thus generating an active secondary market in these securities. The first conventional (corporate) pass throughs were issued in the fall of 1977; the Index picks them up at the start of 1978.

Analysis of the results

A natural starting point for comparisons with the Mortgage Index is the Salomon Brothers High-Grade Corporate Bond Index, an index similar to the Mortgage Index, covering long-term AAA and AA utility and industrial bonds. For the period from January 1972 through March 1980, the Mortgage Index shows a net advantage in total return of 15.3 percent over the High-Grade Corporate Bond Index (Table 2 and Figure 1). Almost all of this advantage accrued during the market decline years of 1973-1974 and 1978-1980 (through the first quarter of 1980). On the other hand, the Bond Index significantly outperformed the Mortgage Index during the rally years of 1975-1976.

That the Mortgage Index should enjoy an overall advantage during this period is not surprising; the Bond Index represents an average maturity of approximately 25 years, while mortgage pass throughs are traded to a 12-year average life. Thus, one would expect the (shorter) Mortgage Index to do better during the significant secular upward trend in interest rates of the past eight years. Figure 2 shows the cumulative value of the two Indexes (January 1, 1972 = 100). Here, one can clearly see the Mortgage Index gaining its advantage during the bear bond market of 1973-1974—an advantage that it maintains to the present—although it was somewhat narrowed in the 1975-1976 rally.

The performance characteristics of mortgage pass throughs relative to other fixed income investments can be seen even more clearly when one breaks the period under consideration into market cycles. Table 3 and Figure 3 give the rates-of-return for long Treasury and 10-year Treasury securities, as well as for the Mortgage and Corporate Bond Indexes, for six cycles: a decline from January 1972 through the peak in rates in September 1974, a six-month rally to March 1975, a seven-month decline to a peak in rates in October 1975, a 15-month rally to January 1977, and finally the long rise in interest rates through March 1980, which is itself broken into the periods before and after the Fed initiatives of October 6, 1979.

The long Treasuries first are analyzed

Table 1. Dimensions of Salomon Brothers Mortgage Pass Through Index. Amount Issued in Billions of Dollars

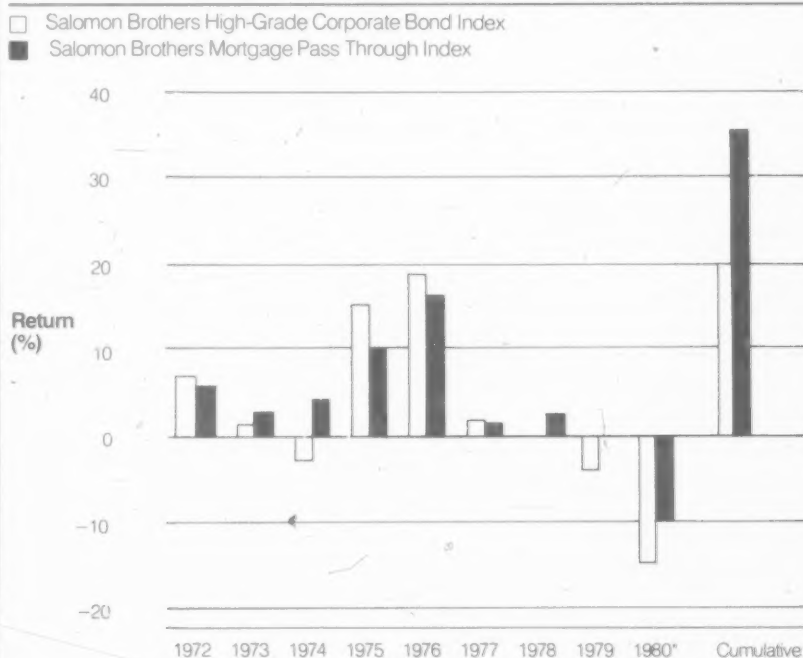
January 1	GNMA	FHLMC	Conv.
1972	\$2.6		
1973	4.0		
1974	6.2		
1975	9.5		
1976	16.7		
1977	27.2	\$0.5	
1978	46.6	5.5	\$0.2
1979	59.6	11.1	1.0
1980	69.3	15.0	1.4

Table 2. Historical Returns Over Calendar Years

	SB H-G Corporate Bond Index	SB Mortgage Pass-Through Index	Advant. of Mort. Index
1972	7.26%	6.13%	-1.13%
1973	1.14	2.55	1.41
1974	-3.04	3.85	6.89
1975	14.64	10.39	-4.25
1976	18.64	16.32	-2.32
1977	1.70	1.56	-0.14
1978	-0.10	2.39	2.49
1979	-4.18	0.15	4.33
Jan-Mar 80	-13.52	-10.17	3.35
Entire Period ^a	20.47%	35.77%	15.30%

^aAll returns result from compounding monthly returns; nonannualized

Figure 1. Historical Returns Over Calendar Years



*1980 returns are for the first quarter

for the rally period starting in September 1974, shortly after the issuance of the Treasury 8¹/₂s of May 15, 1979. The analysis of 10-year Treasuries starts with the cycle beginning in January 1977, about half a year after the 7⁷/₈ percent notes of May 15, 1986, were issued.

This overall comparison reveals two interesting points. First, the Corporate Bond Index outperformed the long Treasuries over each of these cycles with the exception of the most recent decline (October 1979–March 1980) where the two were approximately equal. Second, the positive returns of the 1975–1976 rally considerably outweigh the negative returns of the unprecedented market decline that ended last March. This observation (together with the bull bond market of April–June) perhaps provides some perspective on the traumas recently suffered by fixed-income investors.

Comparison versus treasury market

Let us focus now on the comparison between mortgage pass throughs and long Treasury securities in the period September 1974 through March 1980 (Table 4 and Figure 4). Over this 5¹/₂-year period, the mortgage pass throughs provided a substantial net 22 percent greater total return. Again, the mortgage securities were ahead in all the market decline cycles, as would be expected given their much shorter average maturity. However, the pass throughs also outperformed the long Treasuries in the 1974–1975 rally by a considerable 4.57 percent. How is this explained?

The answer is that there are two important factors determining the relative performance of these securities, other than their maturity differences. One is that the mortgages provide a "yield cushion" over the Treasuries, both in quoted yield (and more appropriately for comparisons, its bond equivalent), and even more so when the actual prepayment characteristics (i.e., cash flows) of the pass throughs in this period are used as the basis for yield calculations. Mortgage pass through pools have traditionally been quoted to a 12-year prepayment, an assumption that usually has proved too conservative over the past decade. These faster prepayments provide a considerable "yield kicker" over the quoted yield for pass throughs trading at a discount, thereby widening their yield advantage over the Treasuries beyond that which is apparent when simply comparing market quoted yields.³

³See Michael Waldman, *The Value of GNMA Discounts*, Salomon Brothers, March 6, 1980.

Figure 2. Comparative Rate of Return Indexes
January 1972–March 1980



Figure 3. Historical Returns Over Market Cycles

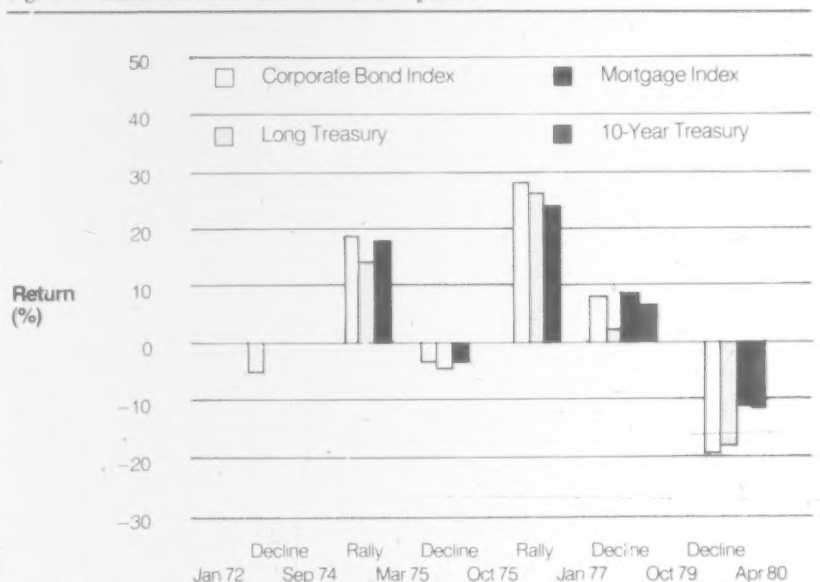


Table 3. Historical Returns Over Market Cycles

Beg. of Month		Corp. Bond Index	Long Treas.	10-Year Treas.	Mort. Index
Jan 72–Sep 74	Decline	-5.41			-0.05
Sep 74–Mar 75	Rally	19.45	14.23		18.80
Mar 75–Oct 75	Decline	-2.28	-3.17		-2.64
Oct 75–Jan 77	Rally	29.58	26.56		25.54
Jan 77–Oct 79	Decline	5.69	1.08	4.32	6.92
Oct 79–Apr 80	Decline	-20.34	-19.34	-12.63	-12.50
Overall					
8.25 Years		20.47			35.77

The other main factor influencing the return of the pass throughs vis-a-vis the long Treasuries is the changing relationship of the yield spread between these two instruments (Table 5). This largely accounted for the surprisingly strong showing of the Mortgage Index during the September 1974-March 1975 rally. For this period, the yield spread of the pass throughs (as represented by GNMA 9's) over the Treasuries narrowed from approximately 119 basis points to 55 basis points. This narrowing, combined with the pass throughs' natural yield cushion, more than overcame the greater positive price volatility of the longer Treasuries in a rally. Spreads then remained relatively stable until the beginning of 1977. Predictably, the mortgages did better in the two declines in this period; the Treasuries did better in the late 1975-1976 rally. In 1977, the spreads widened to somewhat over 100 basis points again, but the magnitude of the general market decline (again together with the "yield cushion") more than offset the effect of the widening spread, and still left the pass throughs well ahead in return.⁴

Comparison versus 10-year treasuries

Turning our attention to the 10-year Treasuries, we see that over the last two market decline cycles from January 1977 through March 1980, the Mortgage Index has a net return advantage of 2.40 percent (Table 6 and Figure 5). This may be a little unexpected, in view of the fact that the mortgages are traded to a 12-year life, and, in this sense, represent a slightly longer investment than the 10-year Treasuries. However, the sizable yield advantage of the mortgage securities and a slight narrowing in the spread between mortgage investments (again represented by GNMA 9's) and the Treasuries (Table 5) once more predominate, and the pass throughs provide a higher total return.

April-June 1980 rally

Finally, although it is still too early to carry out any post-mortems on the bond market rally that began in April, it is interesting to look at the April-June returns for our four market sectors (see Table 7 and Figure 6). During the precipitous interest rate drop in April, the yield spreads between mortgage securities and high-

Table 4. Historical Returns Over Market Cycles—
Long Treasuries versus Mortgage Securities

Beg. of Month		Long Treas.	Mort. Index	Advant. of Mort. Index
Sep 74-Mar 75	Rally	14.23	18.80	4.57
Mar 75-Oct 75	Decline	-3.17	-2.63	0.54
Oct 75-Jan 77	Rally	26.56	25.54	-1.02
Jan 77-Oct 79	Decline	1.08	6.92	5.84
Oct 79-Apr 80	Decline	-19.34	-12.50	6.84
Overall				
5.6 Years		14.14	35.84	21.70

Figure 4. Historical Returns Over Market Cycles—
Long Treasuries versus Mortgage Securities

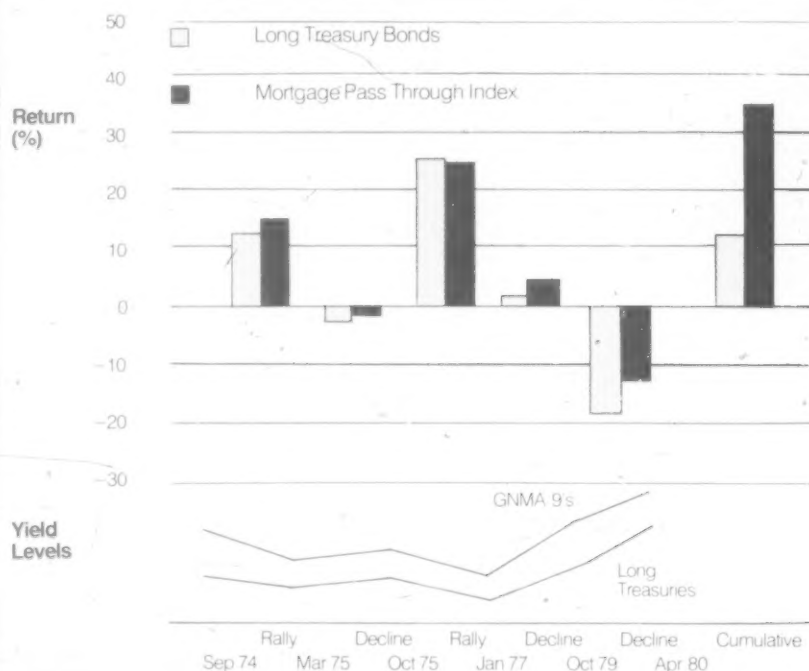
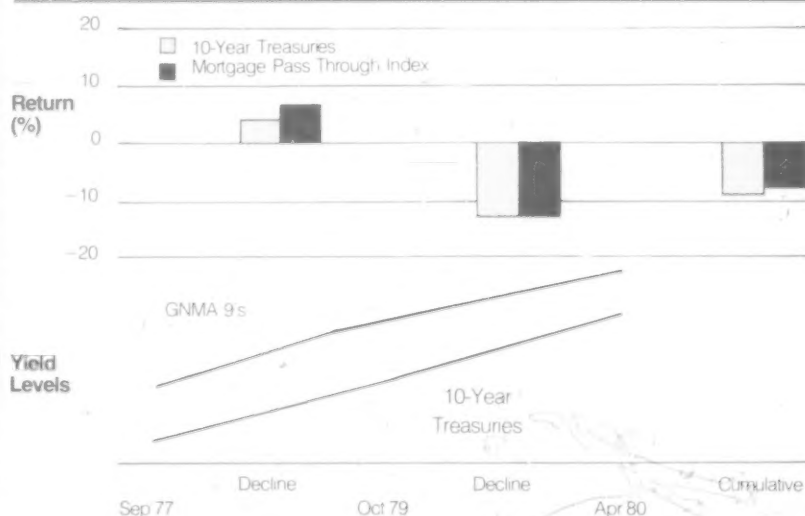


Figure 5. Historical Returns Over Market Cycles—
10-Year Treasuries versus Mortgage Securities



⁴For a more detailed look at how changing spread relationships can affect values in the mortgage pass through market, see Martin L. Leibowitz and Michael Waldman, "A Constructive View of GNMA's," Salomon Brothers, October 16, 1979.

grade bond investments narrowed dramatically. For example, the yield spread between long Treasuries and GNMA 9's collapsed from 113 basis points at the end of March to 41 basis points at the end of April. As a result, mortgage securities (15.06 percent) outperformed both high-grade corporate bonds (14.19 percent) and long Treasuries (13.00 percent) for the month of April.

This pattern was reminiscent of a similar outcome in the October 1974-March 1975 rally. In both of these periods, yield spreads widened in the last stage of the market decline and then snapped down as recession took hold and interest rates fell. Several factors common to both periods contributed to the narrowing in spreads. The yield curve returned to a positive slope, improving the relative position of intermediate issues vis-a-vis longer securities in general. Mortgage supply dried up in a depressed housing market. At the same time, Treasury financing needs increased, and the corporate bond calendar greatly expanded as a result of the lower level of rates. Finally, in both periods, thrift institutions re-entered the market as buyers of mortgage securities when their savings flows shifted from negative to positive.

Under the continuing decline in interest rates in May and part of June, the higher volatility of the long bonds, along

with a widening in the yield spread, resulted in the long bond market instruments outperforming mortgage securities for these months. Overall, for the second-quarter period, high-grade corporate bonds had the highest return (25.05 percent), followed by long Treasury securities (24.80 percent), mortgage securities (22.15 percent), and 10-year Treasuries (18.99 percent).

Performance within the mortgage securities market

In general, the returns of the individual mortgage securities have followed the overall mortgage market returns. However, there have been significant relative performance differences within the market. Table 8 outlines the calendar year performance record for the three mortgage security categories (GNMA's, FHLMC's, and conventional pass throughs) and for selected coupon sectors. Particular comparisons over various periods are highlighted in Table 9.

As GNMA 9's traded at premium prices in the 1976 rally, they became less attractive to many investors because of the potential losses on prepayments. As a result, prices on 9's rose less than those on the discount GNMA's—they "stalled out" in the rally. The yield spread versus 7 $\frac{1}{2}$ s widened to 45 basis points at the

end of the year, and the 9's underperformed the 7 $\frac{1}{2}$ s by 3.36 percent in total return.

As rates increased in the second half of 1977, the 9's traded closer to par, the yield spread reverted back to a narrower 10 basis points and the 9's outperformed the 7 $\frac{1}{2}$ s for calendar 1977.

GNMA 9's performed well in the first half of 1978 but deteriorated later in the year. (Overall, the return on 9's was 1.87 percent lower than on 7 $\frac{1}{2}$ s.) A large supply of the 9's became available following the FHA/VA rate change in June 1978, which made the 9's the GNMA current coupon. At the same time, investor interest shifted toward the lower coupons because of a heightened awareness of the value of fast principal paydowns, together with a fear of sluggish performance for the 9's (then the highest GNMA coupon) in a possible rally. Demand for the discounts also derived from standby contracts coming due.

A dealer group was established to distribute and trade FHLMC PC's in January 1977. Over the following two years, FHLMC's outperformed GNMA's, as shown by the yield spread from GNMA 8's to FHLMC 8's which narrowed in 1977 and then turned negative in 1978 (see Table 10). These yield spread improvements relate primarily to the relationship between the discount sectors

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rather than the current coupons. A key factor in this development was the recognition of fast FHLMC paydowns, which implied higher yields on discount PC's than represented by the standard yield to 12-year life. This perception tended to raise the prices of discount PC's relative both to GNMA's and current coupon PC's. Also contributing to the strong FHLMC performance over this period were an increase in the FHLMC investor base as the security became more familiar to nontraditional mortgage investors, and a limited supply of discount PC's which were free to trade because of loss constraints on certain institutional holders (primarily thrifts) of these securities.

In the market decline in the first quarter of 1980, the FHLMC current coupon 12¹/₂s outperformed discount FHLMC's, for example the 8¹/₂s, by more than 4 percent (see Table 11).

Two factors contributed to this strong performance. First, principal paydowns fell to low levels in the depressed housing market, thus reducing the attractiveness of the discounts. Second, the high level of rates attracted certain buyers who focused on the highest yielding current coupon issues. At the same time, the volume of FHLMC's created was extremely low, resulting in a scarcity of the current coupon issue and in some cases problems in covering shorts.

As the market rallied in April and May, total return investors shifted support to the discounts in the belief that the lower coupon issues would show better price performance (see Table 12). The perception was that issues priced over par would stall out in a rally (as in 1976) because of potential losses on prepayments. Subsequently, the discounts did move further up in price than the high coupon issues. For example, FHLMC 8¹/₂s outperformed FHLMC 12¹/₂s by 6.0 percent in total return. The yield spread between these issues widened by 67 basis points.

The same factors applied in the GNMA market, where the 9's outperformed the 12¹/₂s by 5.7 percent. In the earlier part of the rally in April and May, the situation was moderated by a certain amount of demand for the GNMA high coupon issues. Mortgage bankers bought these issues when they could not create enough loans to cover prior sales. Also, high-coupon GNMA's were used to deliver against futures contracts on the Chicago Board of Trade.

Conclusion

The historical studies of mortgage se-

Figure 6. Historical Returns for Spring 1980 Rally

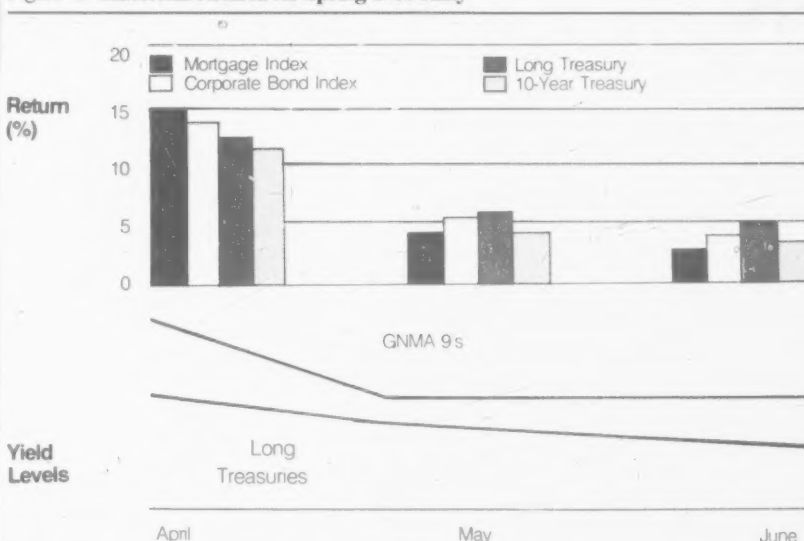


Table 5. Changing Yield Spread Relationships
Treasuries versus Mortgage Securities

Beg. of Month	Long Treasuries Yield	10-Year Treasuries Yield	GNMA 9's Yield ^a	Basis Point Spread Off Long Treasuries	Basis Point Spread Off 10-Year Treasuries
Sep 74	8.70		9.89	119	
Mar 75	7.83		8.38	55	
Oct 75	8.55		9.13	58	
Jan 77	7.30	6.79	7.86	56	107
Oct 79	9.23	9.42	10.49	126	107
Apr 80	12.27	12.60	13.40	113	80

^aMortgage yield to a 12-year life.

Table 6. Historical Returns Over Market Cycles—
10-Year Treasuries versus Mortgage Securities

Beg. of Month		10-Year Treas.	Mort. Index	Advant. of Mort. Index
Jan 77-Oct 79	Decline	4.32	6.92	2.60
Oct 79-Apr 80	Decline	-12.63	-12.50	0.13
Overall				
3.25 Years		-8.85	-6.45	2.40

Table 7. Total Return and Yield Spread
April-June 1980

	Total Return				Month-End Long Treas. Yield Level	Month-End Yield Spread GNMA 9's Off Long Treas.
	Mort. Index	Corp. Bond Index	Long Treas.	10-Year Treas.		
March					12.27	113
April	15.06	14.19	13.00	11.96	10.87	41
May	4.21	5.58	5.72	4.10	10.33	56
June	1.87	3.72	4.46	2.09	9.94	82
Total						
April-June	22.15	25.05	24.80	18.99		

Table 8. Returns for Selected Sectors

	GNMA							FHLMC PC					Conv.
	6 1/2	7 1/2	8	9	11	12 1/2	All	8	8 1/2	10	12 1/2	All	
1972	6.63		5.98				6.13						
1973	2.15		3.27				2.55						
1974	3.99		4.09				3.85						
1975	10.38		10.18	11.34			10.39						
1976	18.42	17.86	15.91	14.50			16.32						
1977	1.12	0.25	1.76	2.71			1.53	2.90				2.93	
1978	2.29	2.43	2.20	0.56			2.19	5.12	3.39			3.97	1.60
1979	2.17	-0.14	0.12	0.21			0.18	-1.18	-0.17	0.41		0.06	0.62
Jan-Mar 80	-10.38	-10.37	-10.30	-10.24	-9.69		-10.34	-9.99	-9.93	-9.02	-5.77	-9.33	-10.86
Apr-Jun 80	25.48	21.53	23.73	21.86	20.10	16.12	22.38	22.32	21.76	20.00	15.79	20.74	23.13

curity returns put their past performance record into perspective and provide some insight into the investment characteristics of these instruments. Overall, the mortgages have outperformed each of the other sectors examined (high-grade corporate bonds, long Treasuries, and 10-year Treasuries). As we have seen, the main reasons for this are the shorter average maturity of the mortgages during a period of generally rising rates and the high relative yield levels of the mortgages. Pass through returns were also helped by some narrowing in the yield spread relationships vis-a-vis both the long and 10-year Treasury issues.

In past market rallies, pass throughs have shown surprising strength versus longer issues. For instance, narrowing spreads and the "yield cushion" enabled pass throughs to outperform long Treasuries in both the September 1974-March 1975 rally, and in the initial sharp drop in interest rates in April 1980. On the other hand, in the absence of an offsetting narrowing in yield spreads, greater price volatility produced advantages for the longer issues in the October 1975-January 1977 rally and in May-June 1980.

Within the market, the key factors affecting relative performance in the past have been: the supply and liquidity of the specific issues or sectors, the preference by total return investors for discounts in a rising market and by thrift institutions for current coupon issues. The changing perception of the value of prepayments has also had an effect.

In summary, the yield advantage of mortgage securities provides return benefits over the course of time. These investments offer particular advantages in a rising interest rate environment. In market rallies, long bonds have the advantage of greater price volatility for a given yield move. But mortgage securities may still provide favorable relative performance if yield spreads narrow sufficiently. □

Table 9 GNMA 7 1/2s versus 9's: 1976-1978

	Total Return			Yield Spread Relationship			
	GNMA 7 1/2	GNMA 9	Advant. of 7 1/2s	1st of Month	GNMA 7 1/2 Yield	GNMA 9 Yield	Basis Point Spread
				Jan 76	8.53%	8.60%	7
1976	17.86%	14.50%	+3.36%	Jan 77	7.41	7.86	45
1977	0.25	2.71	-2.46	Jan 78	8.46	8.56	10
1978	2.43	0.56	+1.87	Jan 79	9.40	9.78	38

Table 10 FHLMC's versus GNMA's: 1977-1978

	Total Return			Yield Spread Relationship			
	All GNMA's	All FHLMC's	Advant. of FHLMC's	1st of Month	GNMA 8 Yield	FHLMC 8 Yield	Basis Point Spread
				Jan 77	7.59%	7.83%	24
1977	1.53%	2.93%	+1.40%	Jan 78	8.46	8.60	14
1978	2.19	3.97	+1.78	Jan 79	9.43	9.25	-18

Table 11 Market Decline: First Quarter 1980

FHLMC Current Coupon Outperformed Discount FHLMC's

	Total Return			Yield Spread Relationship			
	FHLMC 8 1/2	FHLMC 12 1/2	Advant. of 12 1/2s	1st of Month	FHLMC 8 1/2 Yield	FHLMC 12 1/2 Yield	Basis Point Spread
Jan-March 1980	-9.93%	-5.77%	+4.16%	Jan 80	11.10%	12.31%	121
				Apr 80	13.19	13.85	66

Table 12 Market Rally: Second Quarter 1980 Discounts Outperformed High Coupon Issues

	Total Return			Yield Spread Relationship			
	GNMA 9	GNMA 12 1/2	Advant. of 9's	1st of Month	GNMA 9 Yield	GNMA 12 1/2 Yield	Basis Point Spread
April-June 1980	21.86%	16.12%	5.74%	Apr 80	13.40%	13.85%	45
				Jul 80	10.76	11.88	112
	Total Return			Yield Spread Relationship			
	FHLMC 8 1/2	FHLMC 12 1/2	Advant. of 8 1/2s	1st of Month	FHLMC 8 1/2 Yield	FHLMC 12 1/2 Yield	Basis Point Spread
April-June 1980	21.76%	15.79%	5.97%	Apr 80	13.19%	13.85%	66
				Jul 80	10.63	11.96	133

Mortgage Market Trends

Prepared by MBA's Economics Department

September 16, 1980

Thus far, 1980 has proved to be a rather difficult year for the U.S. economy, and particularly so for the housing and mortgage markets. Unfortunately, the economic problems that we have been experiencing in the recent past do not appear likely to abate significantly in the near future.

Despite the fact that the economy has taken some tentative steps on the road to recovery from the current recession, a great deal of uncertainty about the future course of the economy remains. The prospects for a sustained reduction in inflation are dim; the financial markets are experiencing a period of instability; unemployment is at a high level; and a number of sectors of the economy, most notably housing and the automotive industry, are clearly not out of the woods.

As we move into the final quarter of the year, the economy will probably be showing more positive signs of recovery, and interest rates should level off for a while. However, as the economy begins to pick up steam early in 1981, the underlying problems associated with inflation, which will not be solved in this relatively short recession, will only serve to place renewed upward pressure on interest rates.

What does this say for the housing and mortgage markets? The housing construction picture showed marked improvement in recent months. August witnessed the third straight month of increased housing construction, with housing starts advancing 12 percent over the previous month to a 1.399 million unit seasonally adjusted annual rate. Building permits, an indicator of future construction activity, also advanced in August, but at a much slower rate than has been experienced in recent months. August building permits increased only 7.76 percent, on a seasonally adjusted annual basis, as compared with the 15 percent increase recorded in July. This is probably an indication that housing construction activity is about to embark on a downward course again, reflecting the deleterious effects of the squeeze in the mortgage markets.

Sales activity of both new and existing housing picked up considerably during the summer months, thereby reducing the large inventory overhang that built up in the spring. It now appears, however, that house sales have slowed down considerably in the wake of renewed upward movement in mortgage interest rates.

Dr. Thomas R. Harter, Chief Economist

MORTGAGE MARKET TRENDS—OCTOBER 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE (Units in thousands)											VALUE OF NEW CON- STRUCTION PUT IN PLACE (Dollars in millions)				HOUSE SALES (Units in thousands)					
Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS						Seasonally Adjusted Annual Rate				EXISTING HOUSES ¹	NEW HOUSES		
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate										
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1 Unit	2+ Units	Non- Res.				
	Sold	Avail- able For Sale	Months Supply at Current Rate																	
1979																				
APR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364	121,155	59,897	16,943	44,315	333	72	417	5.7
MAY	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452	122,818	59,915	16,915	45,988	371	69	426	6.2
JUN	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511	125,955	60,617	17,802	47,536	344	64	420	6.6
JUL	138	104	34	1,528	1,136	392	164	130	34	1,764	1,352	412	127,697	61,059	17,916	48,722	343	66	421	6.3
AUG	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399	127,149	61,381	17,915	47,853	377	69	419	6.1
SEP	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514	128,898	61,308	19,055	48,535	314	62	414	6.7
OCT	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442	130,677	60,858	19,005	50,814	329	55	416	7.6
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428	130,358	59,218	19,749	51,391	255	41	409	10.0
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383	132,078	57,753	20,751	53,574	197	34	403	11.8
1980																				
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290	137,295	58,439	22,224	56,632	209	43	393	9.2
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443	130,053	54,463	20,664	54,926	220	44	381	8.7
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336	120,768	48,797	19,628	52,343	243	43	370	8.6
APR	77	54	23	789	536	253	96	71	25	1,030	728	302	113,411	42,980	17,723	52,708	224	36	361	10.2
MAY	77	56	21	825	576	249	92	73	19	913	714	199	108,104	38,057	17,131	52,916	219	48	349	8.1
JUN	101	69	32	1,078	721	357	116	84	32	1,223	832	391	104,286	35,750	16,150	52,886	233	48	342	7.2
JUL	113	84	29	1,236	900	336	119	94	25	1,249	951	298	101,738p	37,210p	14,894p	49,634p	275	55p	338p	6.1p
6 months																				
1980	488	341	147				542	398	144								1,348	257		
1979	763	555	208				868	670	198								1,902	387		
1978	850 ¹	623	227				987	766	221								1,956	437		
1977	823	621	202				949	766	183								1,750	442		

RESIDENTIAL STRUCTURES, BY REGION														CONSTRUCTION STATUS											
(units in thousands)																				(units in thousands)					
Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS								UNDER CONSTRUCTION			COMPLETIONS					
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate												
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units			
1979																									
APR	14	31	51	43	142	297	543	455	75	34	65	47	171	356	692	531	1,228	793	435	142	111	31			
MAY	18	37	60	48	181	328	616	493	18	50	72	51	173	396	734	498	1,259	831	438	156	113	43			
JUN	18	34	59	45	199	332	636	472	19	24	79	51	178	371	862	499	1,283	857	446	166	130	36			
JUL	15	27	51	45	161	281	585	501	18	26	68	43	174	356	762	472	1,300	852	448	151	116	35			
AUG	15	30	50	47	147	319	664	533	20	39	74	40	176	388	770	454	1,301	860	441	159	123	36			
SEP	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553	1,283	850	433	181	125	56			
OCT	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456	1,274	837	437	174	135	39			
NOV	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387	1,226	794	432	165	121	44			
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399	1,140	717	423	174	139	35			
1980																									
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339	1,088	678	410	125	94	31			
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333	1,041	644	397	126	89	37			
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247	991	609	382	130	90	40			
APR	8	12	37	20	86	116	385	202	10	15	48	23	130	156	487	257	953	588	365	135	93	42			
MAY	9	13	36	19	98	122	399	206	12	15	45	21	129	122	459	203	918	570	348	120	87	33			
JUN	11	15	48	27	114	142	534	288	13	21	58	24	120	179	679	245	900	566	334	131	89	42			
JUL	12	20	50	32	119	208	566	343	12	20	60	27	194	193	664	278	895p	574p	321p	125p	82p	43p			
6 months																									
1980	48	66	239	135					51	77	283	134								767	542	225			
1979	78	145	304	238					78	128	378	246								868	663	205			
1978	80	179	300	293					83	209	417	278								824	659	165			
1977	87	187	278	271					86	217	374	272								714	575	139			

INTEREST RATES AND YIELDS																	
Year and Month	1-4 UNIT MORTGAGES						APARTMENTS ⁴	CON- STRUCTION LOANS ⁵ ALL TYPES	FNMA		GNMA Current Securities Yield ¹	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey					FMS Auction Yields on 4 mo Commitments ² FHA/VA Conv.	Aaa Utility New Issue		U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't	
	FHA New ³	Conventional		Conventional		10-yr						26-wk					
		New	Existing	New	Existing												
1979																	
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375	12.23	10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68	
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500		10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79	
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90	
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86	
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98	
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107	
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.660	13.23	n.a.	100	
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	99	93	
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117	
1980																	
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116	
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61	
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94	
APR	13.45	15.55	15.55	13.03	13.57	n.a.		14.670	16.451	13.17	12.90	11.47	13.618	15.78	55	170	
MAY	11.99	13.20	13.20	13.67	14.12	13.000-15.000	18.32	12.855	13.535	11.54	11.53	10.18	9.749	9.49	46	136	
JUN	11.85	12.45	12.45	12.69	13.31	12.250-12.750		12.760	12.946	10.82	10.96	9.78	7.218	8.27	89	111	
JUL	12.39	12.45	12.45	12.48	12.61	12.500-13.500		12.692	12.807	11.53	11.60	10.25	8.101	8.41	79	128	

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT, AND INSTITUTION														
						1-4 Units					5 + Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.
1979																				
FEB	13,558	3,045	5,240	4,308	843	9,936	2,387	4,669	2,880	86	893	225	337	180	151	2,572	434	284	1,248	606
MAR	16,075	2,989	7,036	4,900	1,150	12,207	2,498	6,203	3,421	85	1,041	234	417	285	105	2,827	257	416	1,194	960
APR	16,902	3,203	7,757	4,977	985	13,166	2,562	6,954	3,507	143	1,101	310	440	232	119	2,635	331	363	1,238	703
MAY	19,228	2,935	9,576	5,735	962	15,349	2,551	8,556	4,187	55	960	100	590	212	58	2,920	285	430	1,336	869
JUN	21,600	3,162	9,859	7,272	1,307	17,157	2,635	8,995	5,420	107	1,249	294	484	224	247	3,193	212	380	1,628	953
JUL	20,460	3,498	8,412	7,314	1,236	16,096	2,858	7,702	5,407	126	1,043	309	377	264	93	3,322	332	330	1,643	1,017
AUG	21,287	4,232	9,018	6,800	1,237	17,298	3,602	8,289	5,193	214	1,083	217	375	342	149	2,906	413	354	1,265	874
SEP	18,956	3,955	7,738	5,820	1,443	14,395	3,032	7,012	4,113	238	1,254	469	351	263	171	3,306	453	375	1,444	1,034
OCT	21,394	4,141	8,879	6,869	1,505	16,913	3,690	7,994	5,009	220	921	91	488	191	151	3,560	360	397	1,660	1,131
NOV	18,362	3,526	7,230	6,175	1,431	13,823	2,833	6,480	4,260	250	831	148	338	223	122	3,708	545	412	1,692	1,059
DEC	15,040	3,338	5,223	5,018	1,461	11,801	2,552	4,584	3,338	427	792	130	270	251	94	3,346	655	369	1,429	893
1980																				
JAN	12,134	2,588	4,070	4,073	1,403	8,731	2,271	3,589	2,703	168	588	82	208	204	94	2,816	236	273	1,166	1,141
FEB	11,975	2,733	4,281	4,802	1,159	8,469	2,055	3,805	2,361	248	919	454	204	148	113	2,587	224	272	1,293	798
MAR	14,187	2,632	5,487	4,509	1,559	10,372	2,085	4,955	2,899	433	517	72	224	135	86	3,298	475	308	1,475	1,040
APR	12,363	2,297	4,707	4,111	1,248	8,868	1,662	4,216	2,749	241	614	94	218	137	165	2,881	541	273	1,225	842
MAY	9,852	2,080	3,536	3,301	935	6,860	1,606	2,996	2,051	207	429	41	220	102	66	2,563	433	320	1,148	662
JUN	n.a.	2,757	n.a.	n.a.	n.a.	n.a.	1,975	n.a.	n.a.	n.a.	n.a.	415	n.a.	n.a.	n.a.	n.a.	366	n.a.	n.a.	n.a.

LONG-TERM COMMITMENT ACTIVITY
(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks ^a	Life Cos.
1979										
FEB	75,584	15,184	24,960	11,435	24,005	12,888	3,344	5,959	2,250	1,335
MAR	79,191	15,430	27,707	11,390	24,664	17,121	3,853	8,608	2,543	2,117
APR	79,095	12,675	29,054	12,054	25,312	18,058	3,433	9,428	3,287	1,910
MAY	84,252	14,123	30,140	13,016	26,973	20,870	3,803	10,387	3,776	2,904
JUN	84,305	13,676	29,350	13,155	28,124	18,739	3,163	9,003	3,857	2,716
JUL	86,870	16,501	28,818	12,817	28,734	20,028	3,547	8,167	3,266	5,048
AUG	85,014	14,153	28,379	11,945	29,287	19,816	5,466	8,852	3,335	2,163
SEP	85,090	14,619	28,373	11,974	30,124	16,809	4,073	7,730	2,530	2,476
OCT	83,042	14,258	27,084	11,184	30,207	16,943	4,014	7,992	2,916	2,021
NOV	79,324	14,824	23,714	11,315	29,471	12,023	3,415	4,741	2,407	1,460
DEC	73,350	13,473	21,467	10,504	27,906	8,533	2,608	3,248	1,892	785
1980										
JAN	67,753	11,983	20,502	8,929	26,339	8,579	2,984	3,510	1,545	540
FEB	68,818	12,333	21,351	9,717	25,417	9,400	2,046	5,017	1,637	780
MAR	66,122	11,974	20,424	9,245	24,509	9,924	2,372	4,782	1,850	920
APR	60,999	10,500	18,597	8,286	23,616	7,126	1,964	3,147	1,276	739
MAY	58,833	10,336	17,762	8,011	22,724	7,051	2,958	2,802	901	390
JUN	n.a.	12,840	n.a.	n.a.	n.a.	n.a.	2,840	n.a.	n.a.	n.a.

MORTGAGE INSURANCE
(Units in thousands, dollars in millions)

APPLICATIONS RECEIVED UNITS			INSURED							
			Total		FHA (293)		VA		Private	
Total	VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
114	74	40	93	3,861	27	936	31	1,367	35	1,558
157	102	55	98	4,023	25	855	32	1,415	41	1,753
169	106	63	90	3,741	19	665	24	1,075	47	2,007
185	116	69	102	4,246	23	806	24	1,082	55	2,358
166	103	63	103	4,338	24	846	24	1,096	55	2,398
170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
177	118	59	116	5,042	25	912	35	1,695	56	2,435
150	100	50	104	4,646	20	744	39	1,910	45	1,992
155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
79	50	29	91	4,117	20	769	31	1,531	40	1,817
90	66	24	100	4,534	31	1,142	39	1,956	30	1,436
91	63	28	71	3,153	21	753	26	1,301	24	1,099
101	61	40	74	3,371	18	696	27	1,329	29	1,346
90	58	32	76	3,473	20	746	23	1,149	33	1,578
101	76	25	56	2,608	13	483	17	848	26	1,277
105	78	27	50	2,273	13	502	16	741	22	1,030

SECONDARY MARKET ACTIVITY

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Funds-Through Securities	
	FHA/VA Bid Accept		Conventional Bid Accept						Applications	Issues
1979										
APR	1,323	638	662	364	517	492	358	363	5,907	1,601
MAY	426	185	459	214	503	601	560	572	3,009	1,476
JUN	220	100	358	195	277	462	447	182	3,621	1,860
JUL	133	70	94	70	160	517	518	320	6,211	2,003
AUG	162	83	246	184	184	581	636	354	5,105	2,963
SEP	1,421	600	527	326	343	437	537	347	4,012	2,640
OCT	2,943	1,130	1,050	431	828	504	552	531	6,509	2,633
NOV	558	265	366	190	0	221	458	186	7,410	3,253
DEC	649	249	413	152	0	199	403	211	3,539	1,890
1980										
JAN	516	232	443	247	26	296	279	287	4,265	2,613
FEB	1,169	564	412	148	225	197	248	207	2,178	1,135
MAR	1,267	426	919	240	242	186	193	106	5,424	1,430
APR	494	199	135	66	85	189	231	200	4,509	1,773
MAY	609	214	280	109	62	491	176	391	5,281	1,131
JUN	603	267	170	76	92	577	225	230	6,627	1,320
JUL	1,255	506	229	141	72	702	440	288	n.a.	

**MORTGAGE BANKERS
CONSTRUCTION AND LAND LOAN ACTIVITY**
(Dollars in Millions)

[illegible]

n.a. -Not available; p-Preliminary

¹From the National Association of Realtors' "Existing Home Sales" series.

²Reflects cumulative total through the latest month for each column.

³Secondary market gross yields.

⁴Benchmark rates, Citicorp Real Estate, Inc.

⁵Federal Reserve's weighted average interest rate for Commercial Banks

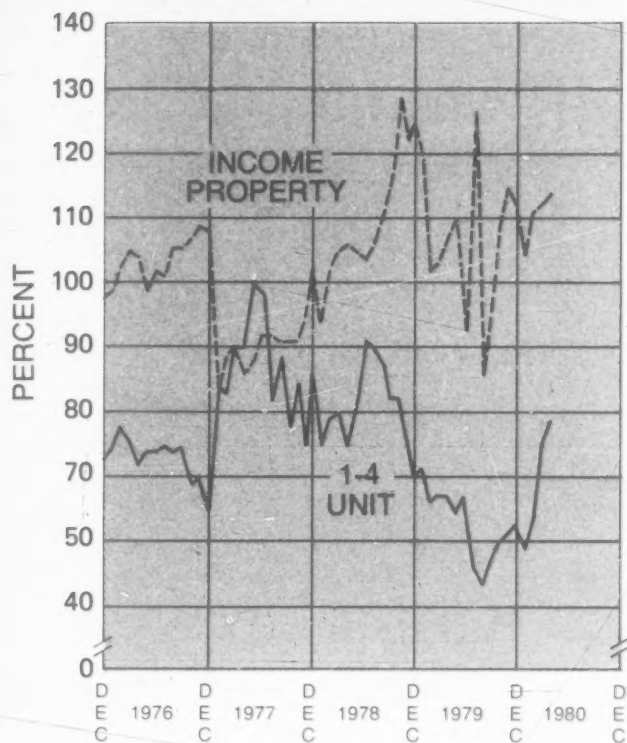
^bWeighted average gross yields for accepted bids

³Survey of three New York security dealers. Securities for immediate delivery

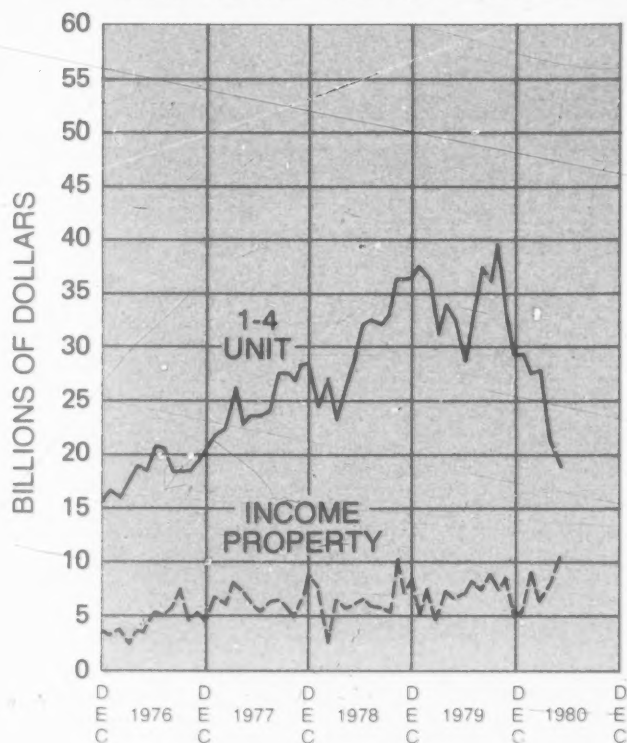
*Mutual Savings Banks and Commercial Banks

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

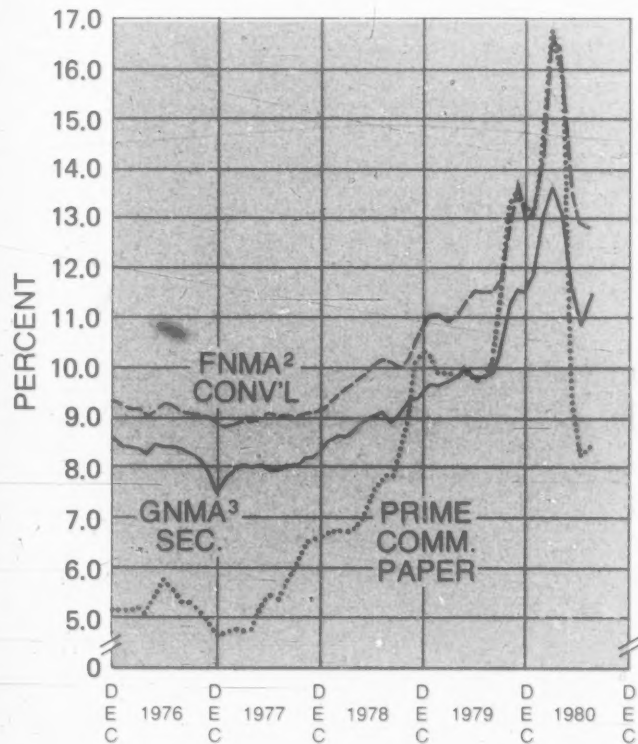
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE¹



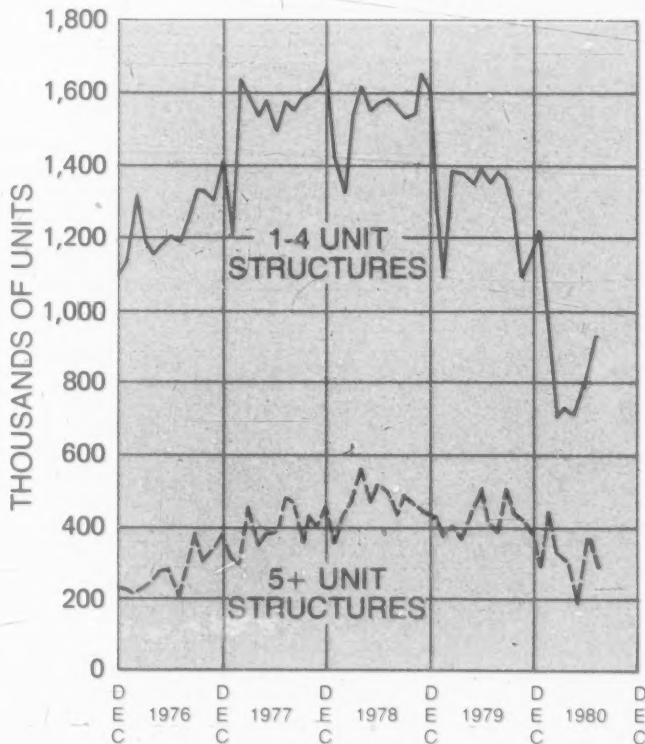
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED⁴



SELECTED YIELDS



HOUSING STARTS⁴



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.

2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.

3. SURVEY OF THREE NEW YORK SECURITY DEALERS: SECURITIES FOR IMMEDIATE DELIVERY.

4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.